



# EMPIRE ENERGY GROUP LIMITED

and its controlled entities

ABN 29 002 148 361

**DECEMBER 2013 ANNUAL REPORT**

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## **CORPORATE DIRECTORY**

### **Directors**

B W McLeod (Executive Chairman)  
D H Sutton  
K A Torpey

### **Registered Offices**

#### **Australian Office**

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151 Macquarie Street  
Sydney NSW 2000 Australia  
Telephone: (02) 9251 1846  
Facsimile: (02) 9251 0244

#### **US Office**

380 Southpointe Boulevard  
Suite 130  
Canonsburg PA 15317

### **Auditors**

Nexia Court & Co  
Level 16, No.1 Market Street  
Sydney NSW 2000

### **US Auditors**

Schneider Downs & Co. Inc  
One PPG Place, Suite 1700  
Pittsburgh PA 15222

### **Share Registry**

Computershare Investor Services Pty Limited  
Level 3  
60 Carrington Street  
Sydney NSW 2000  
Telephone: 1300 85 05 05

[www.empireenergygroup.net](http://www.empireenergygroup.net)

### **Company Secretary**

R V Ryan

### **Bankers**

Australian & New Zealand Banking Group Limited  
Macquarie Bank Limited  
PNC Bank

### **Solicitors**

Clifford Chance  
Level 16  
No.1 O'Connell Street  
Sydney NSW 2000

### **US Solicitors**

K&L Gates LLP  
K&L Gates Center  
210 Sixth Avenue  
Pittsburgh PA 15222-2613

## **Stock Exchange Listings**

### **Australia**

Australian Securities Exchange  
(Home Exchange Sydney, New South Wales)

ASX Code: EEG - Ordinary Shares

### **United States of America**

New York OTCQX Market: Code: EEGNY  
OTC#: 452869103  
Sponsor: Bank of New York  
1 ADR for 20 Ordinary shares

## **CHAIRMAN'S LETTER**

I would like to thank shareholders for their support over 2013. The Company we have built is a diversified upstream oil and natural gas exploration and production company ("E&P") with a strong foundation for future growth.

The Company's assets in the US continue to contribute a steady cash flow allowing for the continued pay down of existing debt ahead of budget. The Company's USA shale acreage provides very significant optionality in providing value upside once the fracking moratorium in New York State is lifted.

Significant progress has been made covering the Company's leases in the Northern Territory with core analysis and regional 3D mapping. Work programs have proved that both the Valkeerri and Barney Creek shale formations are live petroleum systems. Based on previous work undertaken by others, combined with recent core analysis undertaken by the Company, updated modelling has shown that the potential for natural gas, liquids and oil is significant. The Company has expanded its operational team for its continuing exploration program over 2014. In addition, the Company continues to build strong relations with the Northern Land Council, Traditional Owners and other supportive Governmental bodies in the Northern Territory.

However, along with adverse equity markets in Australia, the Company is suffering from the significant difference between the market value of the Company and the value of the operating assets. Simply, the ability to raise new equity at current values would be at the detriment to all shareholders, thereby handicapping the opportunity to continue the Company's acquisition and growth program.

For future growth, the Company continues to bid on production focused acquisitions in the US, especially where they are accretive to existing operations. However, as noted the ability to raise equity has hindered the acquisition process, although the acquisitions are strongly cash flow focused, it is difficult to finance acquisitions utilising 100% debt. The Company continues to work closely with its Bankers with the underlying objective of increasing production in existing regions of operation.

As the Company's core business metrics are focused on accretive US growth, the Company is seeking ways to access US capital markets. Since 2013 the Company has participated in a number of presentations to investors, analysts and brokers along with participating in industry events in both the US and Australia. This is part of an ongoing initiative to further promote the Company and will continue into 2014. Support is increasing as investors identify the potential value of the Company's shale holdings in New York State (currently subject to a fracking moratorium), supported by a steady, low risk cash flow generated from conventional oil and gas wells.

I would like to acknowledge the employees, shareholders and stakeholders who have provided support and assistance in continuing the development of the Company. Although 2013 was disappointing in that the Company was not able to secure and expand operations through the acquisition of additional producing assets, a number of opportunities to expand operations remain in place for the Company over 2014.

Subject to the successful outcome of several events as noted above, I strongly believe the nature and scale of the Company has the potential to change significantly.

Bruce McLeod  
Chairman & CEO

## Executive Chairman's Review of Operations

### A. OPERATIONS OVERVIEW

Operations over 2013 and events since Balance Date can be summarised as follows:

- Empire Energy has operating at any time approximately 1,800 gas wells and 256 oil wells. Current production is ~1,330 Boe/d (70% oil by revenue). Overall production decreased by around 6% for the year.

In 2013 the Company was fortunate to employ Mr Jim Farthing who has assumed the role of Vice President, responsible for all Mid-Con operations. Mr Farthing recently retired from Conoco-Phillips, after having served thirty-three years with the company, retiring as Senior Operations Manager Lower 48 E&P Central Region/Gulf Coast. His experience included Operations Manager for all Mid-Con operations, with major responsibility for onshore production operations, drilling and completions, with twenty years in a supervisory capacity operating shallow low pressure wells in Kansas, deep high pressure wells (18000' / 13000# BHP) in Texas, gathering systems, pipelines, booster stations, water floods and associated facilities and plants. This also included responsibility for HSE Training, Asset Control, Commercial Activities, Litigation and Royalty Compliance. The Company welcomes Mr Farthing to his new role and believe that he will make a very significant contribution to the expansion of operations in the Mid-Con region.

- The Company drilled 8 new wells over the period of these 2 were unsuccessful. The Company's annual drilling program is to drill at least 8 to 10 wells per year. Production flow rates have averaged around 6 to 10 Bbl/d after a 60 day IP, with estimated EUR's of around 23,000Bbls. Initial flow rates are not an indication of total expected production from each well, as wells drilled in the Central Kansas Uplift generally target 2 to 3 formations and within each formation there may be an additional 3 to 6 producing zones. In most cases with a new well, the initial producing zone is in one of the highest water flow, lower oil cuts zones. Additional 'behind pipe' zones are then brought on line. In addition to the new wells, existing wells are continually reworked with the Company now undertaking a polymer treatment program targeting 5 to 6 wells per annum (where the Company is getting production uplifts in oil production of 5 to 10 times over periods of 3 to 6 months), before the wells settles back to normal production declines, but generally at higher daily production levels. Over 2013, 2 wells underwent a polymer treatment, with 3 wells already undertaken wells a polymer treatment in 2014.
- In September 2013 the Company completed the buy-back of the minority interest holder in Empire Energy USA LLC ('EEUSA') making it a 100% owned subsidiary subject to the exercise of warrants, equivalent to 10% of the total issued capital of EEUSA by Macquarie Bank Limited.
- In June 2013 after two years of negotiation the Company finalised the acquisition of ~100 miles of gas pipelines and gathering networks in Chautauqua, New York. This is expected to save the Company around 130,000Mcfpa in natural gas which was being lost through shrinkage and downtime.
- The fracking moratorium in New York State remains in place, however not only is the Company actively involved in supporting landowners in their legal action to defend their Constitutional Rights to the minerals contained within their property, Company representatives also are assisting landholder action groups to both educate landowners about the fracking process and providing support and information to demonstrate how the region would hugely benefit from the development of a modern oil and gas industry

**Executive Chairman's Review of Operation (Continued)**

in their region. For many Central and Western New Yorkers an air of despondency is apparent as they see the huge economic and social successes accruing in the neighbouring States of Pennsylvania and Ohio (plus Western Virginia further to the South).

- Landowner negotiations continue for the 14.8 million acres of shale formations secured onshore, in the McArthur Basin, Northern Territory, Australia. The first of the Company's exploration permits EP184 was granted in August 2013 and EP(A) 187 approved by aboriginal landowners in late 2013 with formally grant of the Exploration Permit by the Northern Territory Government expected by the end of March 2014.

**B. OPERATIONS REVIEW**

The Company maintains a small Head office in Australia and manages the oil and gas production operations through its 100% owned USA subsidiary Empire Energy E&P, LLC ('Empire E&P') and the exploration program in the McArthur Basin, Northern Territory, through its 100% owned subsidiary Imperial Oil & Gas Pty Ltd.

**TABLE A**

<b>Operating Statistics</b>				
(Units in thousands)	Notes	Dec 31, 2013	Dec 31, 2012	% change
<u>Gross Production:</u>				
Oil (MBbls)		256.30	286.60	-11%
Natural gas (MMcf)		2,515.99	2,600.69	-3%
<u>Net Production:</u>				
Oil (MBbls)		164.53	183.63	-10%
Natural gas (MMcf)		1,930.53	2,004.94	-4%
Net production (MBoe):	1.0	486.28	517.78	-6%
<u>Net Daily Production (Boe/d):</u>				
		1,332	1,419	-6%
<u>Average sales price per unit (after hedging):</u>				
Oil (\$/Bbl)		\$85.44	\$85.64	0%
Natural gas (\$/Mcf)		\$ 5.40	\$ 5.46	-1%
Oil Equivalents (Bbls)		\$50.36	\$51.51	-2%
<u>Average sales price per unit (before hedging):</u>				
Oil (\$/Bbl)		\$91.19	\$89.48	2%
Natural gas (\$/Mcf)		\$ 3.77	\$ 3.02	25%
Oil Equivalents (Bbls)		\$45.83	\$43.42	6%
<u>Lifting Costs (incl taxes):</u>				
	1.1			
Oil (\$/Bbl)		\$26.61	\$24.27	10%
Natural gas (\$/Mcf)		\$ 2.27	\$ 2.03	12%
Oil Equivalents (Bbls)		\$18.03	\$16.45	10%
2P Reserves (MBoe):	1.2	10,249	11,390	-10%

**Executive Chairman's Review of Operation (Continued)**Notes to Table A:

- 1.0 BOE** - based on SEC guidelines of an oil:gas ratio of 1:6.
- 1.1 Lifting Costs** - includes lease operating expenses, production and ad valorem taxes.
- 1.2 2P Reserves** - reserves where updated as of December 1, 2013 by Ralph E Davis Associates, Inc., Houston, TX (Appalachian assets) and LaRoche Petroleum Consultants Ltd, Dallas, TX (Kansas assets). At balance date, due to prevailing gas prices it was determined that the booked natural gas Puds were uneconomic and as such the Pud reserves were not included in 2P Reserve calculations.

US operations are producing approximately 6,910 Mcf/d and 704 Bbl/d or 1,330 Boe/day (net). Conversion of natural gas (1,000mmbtu) to a barrel of oil equivalent is based on a 6:1 ratio. Although this conversion ratio may be useful in terms of energy equivalents, it is not relevant in terms of value equivalent, with current NYMEX Henry Hub at \$4.28/Mcf and WTI at \$99.50/Bbl.

In Appalachia, focus continues towards reducing lifting costs, improving production from existing operating wells and reducing shrinkage in pipelines recently acquired. Nonrecurring costs of approximately \$300,000 was spent in 2013 in upgrading recently acquired pipelines, with work now complete. Payback will be less than one year. Opportunities to acquire production, pipelines, taps into mainline gas transportation networks and acreage will continue.

**C. NET PRODUCTION BY REGION****TABLE B**

<b>Operating Statistics</b>				
(In thousands)	Notes	Dec 31, 2013	Dec 31, 2012	% change
Oil (MBbls)				
Appalachia		3.64	4.98	-27%
Mid-Con		160.89	178.65	-10%
		164.53	183.63	-10%
Natural Gas (MMcf)				
Appalachia		1,916.96	1,984.01	-3%
Mid-Con		13.57	20.94	-35%
		1,930.53	2,004.94	-4%

## Executive Chairman's Review of Operation (Continued)

### D. REVIEW OF OPERATING RESULTS

#### USA OPERATIONS

In addition to the information presented in this financial report, to assist stakeholders in gaining a more comprehensive understanding of the operations of Empire Energy Group, the financial results have also been prepared with reference to an EBITDAX format.

The presentation of "EBITDAX" accounting, which is a non-IFRS or statutory financial measure, may therefore not be comparable to similar measures presented by other companies. Management have attempted to ensure that EBITDAX accounting presented is consistent with reporting by other similar E&P companies so a useful production and financial comparison can be made. The EBITDAX accounts, based on the production date, are not meant to reconcile to the statutory accounts as the latter have been prepared on an accrual basis (effective date). However, if the EBITDAX accounts are prepared on an effective date basis they can then be reconciled to the statutory accounts, see Section F.

EBITDAX represents net income (loss) before interest expense, taxes, and depreciation, amortization, development and exploration expenses. Nonrecurring expenses have been included in EBITDAX. In summary, all revenues and operating expenses of the Company's business are included in EBITDAX. All non-cash expenses, which may distort the presentation of operations as shown in the statutory accounts, have been either eliminated or reallocated and aggregated below the EBITDAX line.

In summary, we believe that:

- EBITDAX provides stakeholders with a much simpler and clear measure of our operating performance.
- EBITDAX is an important supplemental measure of operating performance because it eliminates items that have little bearing on our operating performance and so highlights trends in our core business that may not otherwise be apparent when relying solely on current statutory accounting and financial measures.
- EBITDAX is the material component of the covenants that are imposed on the Company under our credit agreements.
- Securities analysts and investors generally use EBITDAX (cash flow modelling) in the comparative evaluation of companies.
- Management and external users of our financial statements, rely on the use of EBITDAX to assess:
  - the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
  - the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness;
  - our operating performance and return on capital as compared to those of other companies in our industry, without regard to financing or capital structure; and
  - the feasibility and effectiveness of acquisitions and capital expenditure projects; and
  - the overall rates of return on alternative investment opportunities.

Other companies may calculate EBITDAX differently than as presented. Based on the premises set out above, the following schedules present comparative operating statistics and financials on an EBITDAX basis:



## Executive Chairman's Review of Operation (Continued)

TABLE C

<b>Operations</b>				
(In \$ thousands)	Notes	Dec 31, 2013	Dec 31, 2012	% change
<b>Net Revenue:</b>				
Oil Sales	1.3	\$14,057	\$15,726	-11%
Natural gas Sales	1.3	\$10,409	\$10,936	-5%
WI Income		\$24	\$9	167%
Net Admin Income	1.4	\$454	\$399	14%
Other Income		\$256	\$28	814%
Net Revenue		\$25,200	\$27,098	-7%
<b>Production costs:</b>				
Lease operating expenses - Oil		\$3,390	\$3,478	-3%
Lease operating expenses - Gas		\$2,893	\$2,809	3%
Taxes - Oil		\$576	\$702	-18%
Taxes - Natural gas	1.5	\$486	\$417	17%
Total		\$7,345	\$7,406	1%
<b>Field EBITDAX</b>		<b>\$17,855</b>	<b>\$19,692</b>	-9%
<i>Gross Margin</i>		<i>70.9%</i>	<i>72.7%</i>	
<b>Less:</b>				
Inventory Adjustment	1.6	\$(235)	\$(54)	335%
Nonrecurring expenses	1.7	\$1,763	\$1,960	-10%
Non Field F&A	1.8	\$720	\$754	-5%
Delayed Rental Payments		\$315	\$261	21%
		\$2,563	\$2,921	-12%
<b>Operating EBITDAX</b>		<b>\$15,292</b>	<b>\$16,771</b>	-9%
<i>Operating Margin</i>		<i>60.7%</i>	<i>61.9%</i>	
<b>Less:</b>				
Field G&A	1.9	\$795	\$591	35%
Corporate G&A	1.10	\$1,492	\$1,523	-2%
Acquisition related expenses	1.11	\$255	\$359	-29%
Land & Leasing Costs	1.12	\$288	\$456	-37%
Head Office Net G&A	1.13	\$1,367	\$890	54%
		\$4,197	\$3,819	10%
<b>EBITDAX</b>		<b>\$11,095</b>	<b>\$12,952</b>	-14%
<i>Net Margin</i>		<i>44.0%</i>	<i>47.8%</i>	

**Executive Chairman's Review of Operation (Continued)**Notes to Table C:

- 1.3 Oil and Natural gas Sales** –include realised hedges, being \$3.2 million and (\$1.0 million) for natural gas and oil respectively.
- 1.4 Net Admin Income** – as operator for approximately 99% of the Company's assets, the Company charges Working Interest Owners a fee to cover expenses such as administration, general insurance, supervision etc., generally known as COPAS expenses. As part of this cost there is a profit margin which accrues to the Company.
- 1.5 Taxes** – includes production, severance and ad valorem taxes.
- 1.6 Inventory Adjustment** – adjustment for oil in tanks as of December 31, 2013.
- 1.7 Nonrecurring expenses** – Costs relating to ongoing upgrade of wellhead repair of split casings and upgrade of well and tank battery sites. These expenses are trending lower as one-off maintenance procedures are completed. Also included, commencing 2013 are polymer treatment program for wells. A polymer treatment program costs around \$125,000/well. These costs are expensed. Two wells were treated in 2013, with the wells generally showing immediate flush production after treatment and then they follow a normal decline curve back to a slightly higher stabilised production level. Payback can be from 3 to 9 months.
- 1.8 Non Field F&A** – field supervision and indirect operational expenses including motor vehicles, fuel, mechanics, roustabouts, supervisors, lease administration and land management, general property insurances, environmental and reserve reporting etc. As shown by a previous announcement to the ASX the Company managers around 5,000 oil and gas leases and rights of way. In 2013 the Company employed a lease administrator.
- 1.9 Field G&A** - Empire Energy has field offices in each region it operates. In logistical terms Appalachia operations are personnel intensive including over 1,800 operating wells, 3,700 leases, 1,600 right of ways, 20 marketing agreements, 35 employees and 2 contract pumpers operating across a large area of western New York and western Pennsylvania. Kansas operations are less personnel intensive including around 265 oil and gas wells, 65 injection wells, 85 HBP leases, 5 employees and 13 contract pumpers operating across a large area (12 counties) of central Kansas. Field G&A expenses include expenses such as utilities, IT, postage, office rental (where applicable) etc.
- 1.10 Corporate G&A** – Empire Energy manages its USA operations from a corporate head office at Canonsburg, PA where a staff of 6 hold responsibility for financial management, financial control, reporting and HR Services. Significant expenses for the period were - salaries and wages \$288,230; audit/tax and accounting \$270,741; travel and accommodation \$162,995; rent and accommodation costs \$145,260; Professional Services \$119,056 and Management and Director fees \$323,000 (of which \$150,000 was paid to Empire Energy Group Limited).
- 1.11 Acquisition related expenses** – Directly associated with acquisitions and include legal, tax and accounting advice, transition fees, recruitment and relocation costs and engineering expenses. These are driven by the acquisitions that have been bid on or that are currently in progress or negotiation.
- 1.12 Land & Leasing Costs** – costs related to land leasing expenses for new leases and renewals.

## Executive Chairman's Review of Operation (Continued)

- 1.13 Head Office Net G&A** – net cost of Australian operations (expenses are net of income received). Major expenses were consultants \$406,494; salaries \$207,562; audit & accounting \$99,988; listing related expenses \$109,732; rent, communications and IT \$229,264.

**E. NET EARNINGS****TABLE D**

<b>Net Earnings</b>				
(In \$ thousands)	Notes	Dec 31, 2013	Dec 31, 2012	% change
<b>EBITDAX</b>		<b>\$11,095</b>	<b>\$12,952</b>	<b>-14%</b>
Geological Services		\$41	\$23	78%
Dry Hole Expenses		\$729	\$102	615%
Exploration - Australia		\$1,303	\$833	56%
		\$2,073	\$958	116%
<b>EBITDA</b>		<b>\$9,022</b>	<b>\$11,994</b>	<b>-25%</b>
Less:				
ARO, accretion expenses		\$957	\$1,728	-70%
Depn, depletion and amortisation		\$5,660	\$7,398	-23%
		\$6,617	\$9,126	-27%
<b>EBIT</b>		<b>\$2,405</b>	<b>\$2,868</b>	<b>-16%</b>
Interest	1.14	\$2,232	\$2,743	-19%
State Taxes		\$5	\$22	-77%
<b>Net Earnings</b>		<b>\$168</b>	<b>\$103</b>	<b>63%</b>

Notes to Table D:

- 1.14 Credit Facility** The draw down on the Macquarie Bank Limited Credit Facility as at 31 December 2013 was \$41.7 million (cf \$49.4 million at Dec 2012) at an average rate of LIBOR+4.0%. Over 2013, Empire Energy repaid \$7.5 million (\$10.5 million in 2012) of existing loan facilities. Interest expense is estimated to average \$155,000/mth over 2014.

**F. RECONCILIATION OF EBITDAX ACCOUNTS TO STATUTORY ACCOUNTS**

At the time of this EBITDAX report, actual numbers for production, income and expenses have been utilised. This method therefore generates an additional difference between what is shown in the EBITDAX and what is represented in the statutory accounts.

The EBITDAX in Table C and the net earning in Table D report operational activities of Empire Energy Group. The note below provides a reconciliation to the financial statements.

## Executive Chairman's Review of Operation (Continued)

Net Earning - Effective Date		
(In \$ thousands)	Dec 31, 2013	Dec 31, 2012
<b>Net Earnings- production date</b>	\$170	\$103
<b>Net Earnings- effective date</b>	\$535	\$(258)
Intergroup management fee	\$150	\$150
<b>Revenue and expenses (remaining Empire Group)</b>		
Other Income	\$216	\$627
Other Income*	\$38	-
Impairment of assets*	\$(33)	\$(172)
General and administration – head office	\$(216)	\$(627)
General and administration – other*	\$(401)	\$(505)
Finance costs – other*	\$(263)	\$(1,178)
Other expenses	-	\$(62)
Net loss before income tax expense	\$26	\$(2,025)
* <b>Indicates non-cash items</b>		

## G. COMMENTS ON OPERATIONS

1.1 Hedging

Due to the leverage growth model implemented by Empire Energy, an aggressive hedging strategy is adopted to ensure commodity risk is eliminated over the period that a major portion of debt financing is repaid. The Empire Energy acquisition model metric is to target a 5 year debt repayment from project cash flows. The portion of production hedged will be naturally reduced as drill bit production comes on line.

Year	Est. Net mmBtu	Hedged mmBtu	%	Average \$/mmBtu	Est. Net Bbl	Hedged Bbl	%	Average \$/Bbl
2014	1,850,000	1,338,488	72.4%	\$5.93	141,058	105,120	74.5%	\$90.00
2015	1,790,000	1,166,000	65.1%	\$5.45	133,280	98,160	73.6%	\$90.00
2016	1,730,000	1,200,000	69.4%	\$4.43	126,000	42,000	33.3%	\$85.67
2017	1,675,000	570,000	34.0%	\$4.57	119,500	39,600	33.1%	\$85.23
2018	1,620,000	510,000	31.5%	\$4.75				
Total	8,665,000	4,784,488	55.2%	\$5.15	519,838	284,880	54.8%	\$88.70

The fair value gain (marked to market) gain of combined oil and gas hedges in place for the Period was \$2.0 million. Oil and gas hedge contracts were valued based on NYMEX Henry Hub and WTI forward curves at market close on December 31, 2013.

## Executive Chairman's Review of Operation (Continued)

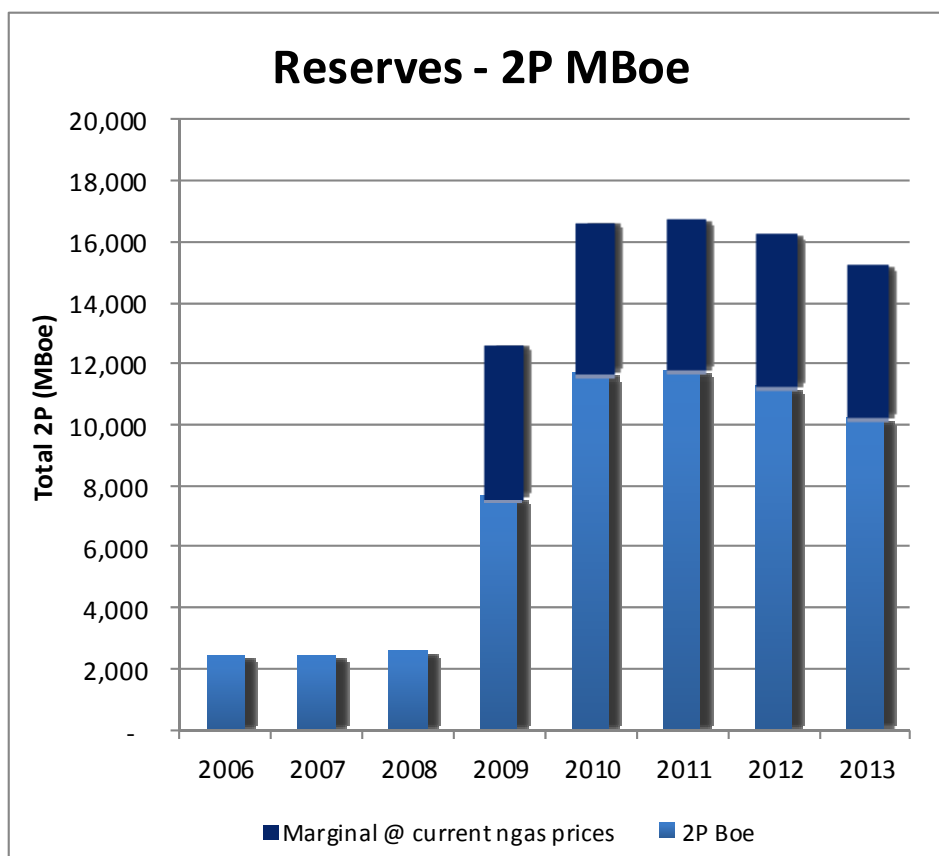
1.2 Exploration & Development

<b>Capex</b>			
(In \$ thousands)	Dec 31, 2013	Dec 31, 2012	% change
Acquisitions	\$6	\$1,270	-100%
New wells - IDC	\$4,024	\$1,710	135%
New wells - well head equipment	\$507	\$438	16%
Undeveloped Leases	\$(1,212)	\$1,326	-191%
	\$3,325	\$4,744	-30%

**Expenditure:** Total drilling expenditure in Kansas over 2013 was \$4.5 million. A total of 8 wells were drilled in Kansas of which 4 have been bought on line by the end of 2013. 6 wells are now producing with an average 60 DIP of 6 Bbl/d. 2 wells drilled were dry and were plugged and abandoned.

1.3 Reserves

**1.3.1 Net 2P Reserves:** An updated Reserve Estimate was carried out as of December 1, 2013. An updated summary of 2P Reserves is shown below. Total 2P reserves are 10.3 MBoe. At reserve update, due to the extended payback of conventional gas wells drilled and completed in Company properties in the Appalachia region, directors decided to exclude Pud Reserves. This resulted in a right down of approximately 5MMboe. These reserves are mainly held by production and will be written back at higher gas prices.



**Executive Chairman's Review of Operation (Continued)**

Empire E&P has adopted the SEC standard of 6 Mcf to 1 Bbl when converting natural gas to Boe.

**1.3.2 Reconciliation of Reserves**

Reserves & Resources	RESERVE CATEGORY (Mboe)			
	1P Proven	2P 1P + Probable	3P 2P + Possible	2C 3P + Contingent
<u>As at December 31, 2012</u>				
Appalachia (2)	5,783	7,024	99,507	114,787
Mid-Con	3,375	4,264	4,713	-
<b>TOTAL</b>	<b>9,158</b>	<b>11,288</b>	<b>104,220</b>	<b>114,787</b>
Production				
Appalachia	-322			
Mid-Con	-165			
Changes (1)				
Appalachia (2)	-139	-448	-3,919	3,282
Mid-Con	-123	-511	-591	-
<u>As at December 31, 2013</u>				
Appalachia (3)	5,322	6,575	95,589	118,069
Mid-Con	3,087	3,754	4,122	-
<b>TOTAL</b>	<b>8,409</b>	<b>10,329</b>	<b>99,711</b>	<b>118,069</b>

(1) Includes acquisitions, divestments, discoveries, extensions and revisions.

(2) 21.7MMcf (3.62 MMboe) 1P reserves not included due to low natural gas prices

(3) Possible Reserves and Contingent Resources subject to NYS Fracking Moratorium

- The scope of the study reviewed basic information to prepare estimates of the reserves and contingent resources. Possible Reserves and Resource estimates were prepared by Ralph E Davis Associates, Inc., and LaRoche Petroleum Consultants Ltd, using acceptable evaluation principals and were based, in large part, on the basic information as supplied.
- The quantities presented are estimated reserves and resources of oil and natural gas that geologic and engineering data demonstrate are "In-Place", and can be recovered from known reservoirs. All volumes presented are gross volume (8/8ths), and have not subtracted associated royalty burdens.

**Notes:**

- Wells within the defined Marcellus oil resource zone were calculated to produce between 2-5,000 Bbls/5 acres. The most likely outcome was utilized with a 3% RF (recovery factor).
- Resource based on portion of total estimated Marcellus and Utica acreage.
- Utica shale gas potential resources have only been calculated for the region where drill data is available. Very few wells have been drilled into the Utica and estimates for GIP have only been made where the few existing wells have been drilled. Empire holds additional acreage outside the current potential resource region. It is expected that as with shale characteristics, the shale formations will continue within the remaining acreage. The potential GIP should increase if more data was available.
- Under current capital and gas prices, it is estimated that the Marcellus shale gas wells would be marginally economic.

## Executive Chairman's Review of Operation (Continued)

## 1.3.3 Reconciliation of Economic Summary Projections

Reserves & Resources	CASHFLOW PV10 (\$M)		
	1P Proven	2P 1P + Probable	3P 2P + Possible
<b>As at December 31, 2013 (1)(4)</b>			
Appalachia (2)	\$28,866	\$39,036	\$43,557
Appalachia hedging (3)	\$6,080		
Mid-Con	\$76,145	\$91,919	\$100,494
Mid-Con hedging (3)	-\$1,957		
<b>TOTAL</b>	<b>\$109,134</b>	<b>\$130,955</b>	<b>\$144,051</b>

(1) Includes changes in strip prices, acquisitions, divestments, discoveries, extensions and revisions.

(2) Zero value for Puds and Possible Reserves subject to NYS Fracking Moratorium

(3) As per GAAP Reporting

(4) Reference prices are held constant in accordance with SEC guidelines. The weighted average prices after adjustments over the life of the proved reserves are: Mid-Con; \$91.44/Bbl and \$4.81/Mcf and Appalachia; \$96.71/Bbl and \$3.69/Mcf.

**Land Position**

The following tables summarise the Company's land holdings in both Appalachia and Mid-Continental region.

## 1.4.1 Appalachia

						Expiry			
State	County	Total Acreage	HBP Ac.	Marcellus Ac.	Utica Ac.	2014	2015	2016	2017+
NY	Cattaraugus	35,427	23,342	35,369	27,947	0	7,927	2,194	1,964
NY	Cayuga	11,127	1,386	11,072	11,072	588	2,883	1,410	4,860
NY	Chautauqua	176,909	176,908	175,521	59,609	0	0	0	1
NY	Erie	9,413	9,119	9,550	624	0	0	294	0
NY	Niagra	951	0	947	947	0	0	714	237
NY	Onondaga	836	0	836	836	0	814	22	0
NY	Ontario	5,743	70	5,744	5,744	194	541	213	4,725
NY	Seneca	15,370	8,322	15,513	15,513	559	425	652	5,412
NY	Wayne	8,901	1,669	8,882	8,882	0	1,216	1,109	4,907
NY	Wyoming	814	814	721	0	0	0	0	0
	<b>Total</b>	<b>265,491</b>	<b>221,630</b>	<b>264,155</b>	<b>131,174</b>	<b>1,341</b>	<b>13,806</b>	<b>6,608</b>	<b>22,106</b>

						Expiry			
State	County	Total Acreage	HBP Ac.	Marcellus Ac.	Utica Ac.	2014	2015	2016	2017+
PA	Armstrong	773	773	0	0	0	0	0	0
PA	Clarion	4,052	4,052	0	0	0	0	0	0
PA	Erie	8,419	8,419	8,419	7,224	0	0	0	0
PA	Jefferson	2,100	2,085	0	489	0	0	15	0
	<b>Total</b>	<b>15,344</b>	<b>15,329</b>	<b>8,419</b>	<b>7,713</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>0</b>

## Executive Chairman's Review of Operation (Continued)

## 1.4.2 Mid-Continental

State	County	Total Gross Ac.	Miss.	A/LKC /S/V	HBP Ac	Expiry			
						2014	2015	2016	2017+
KS	Barton	2,307		2,307	2,152	0	155	0	0
KS	Clark	716	716	716	716	0	0	0	0
KS	Comanche	1,080	1,080	1,080	1,080	0	0	0	0
KS	Ellis	2,706		2,706	2,386	0	320	0	0
KS	Gove	5,922	5,922	5,922	2,720	2,080	1,122	0	0
KS	Graham	400		400	320	80	0	0	0
KS	Harvey	1,520	960	1,520	0	560	960	0	0
KS	Kiowa	80	80	0	80	0	0	0	0
KS	Meade	1,126	1,126	486	966	0	0	160	0
KS	Ness	160	160	0	160	0	0	0	0
KS	Pawnee	160	0	160	160	0	0	0	0
KS	Pratt	370	370	370	160	210	0	0	0
KS	Reno	80	80	80	80	0	0	0	0
KS	Rice	73	73	73	0	0	73	0	0
KS	Rooks	640	0	640	640	0	0	0	0
KS	Rush	480	0	480	160	160	160	0	0
KS	Russell	2,750	0	2,750	2,670	0	80	0	0
KS	Stafford	2,299	0	2,299	2,139	0	160	0	0
<b>Total</b>		<b>22,869</b>	<b>10,567</b>	<b>21,989</b>	<b>16,589</b>	<b>3,090</b>	<b>3,030</b>	<b>160</b>	<b>0</b>

Miss. = Mississippi Lime

A/LKC = Arbuckle/Lansing-Kansas City

S= Simpson

V = Viola Ac

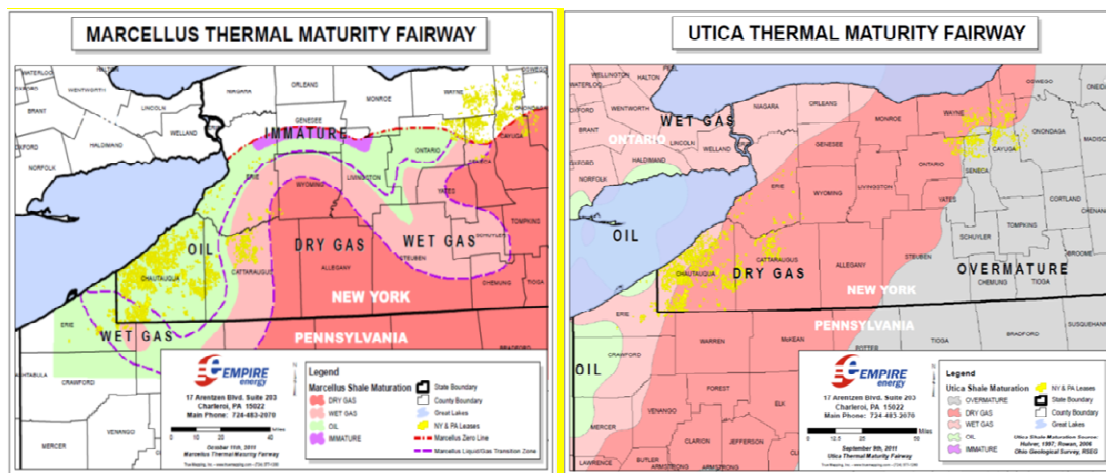
1.3 The New York Fracking Moratorium

The fracking moratorium remains in place in New York State with the New York State Department of Health ("DOH") yet to provide to the New York State Department of Environmental Conservation ("DEC") the health review on the proposed Supplemental Generic Environmental Impact Statement ("SGEIS"). Local support in NY State has been reported as shifting from anti-fracking to pro-fracking with many locals and union groups wanting the economic benefits associated with the fracking industry. Presidents Obama's state of the nation speech in December 2013 was supportive of fracking seeing it as a way for the US to control their own energy future. While pressure mounts on the New York Governor no guidance has been released as to timing of a decision.

The following maps show leases held by the Company over potential Marcellus and Utica shale formations.



## Executive Chairman's Review of Operation (Continued)



## H. NORTHERN TERRITORY – A LARGE EMERGING PETROLEUM PLAY

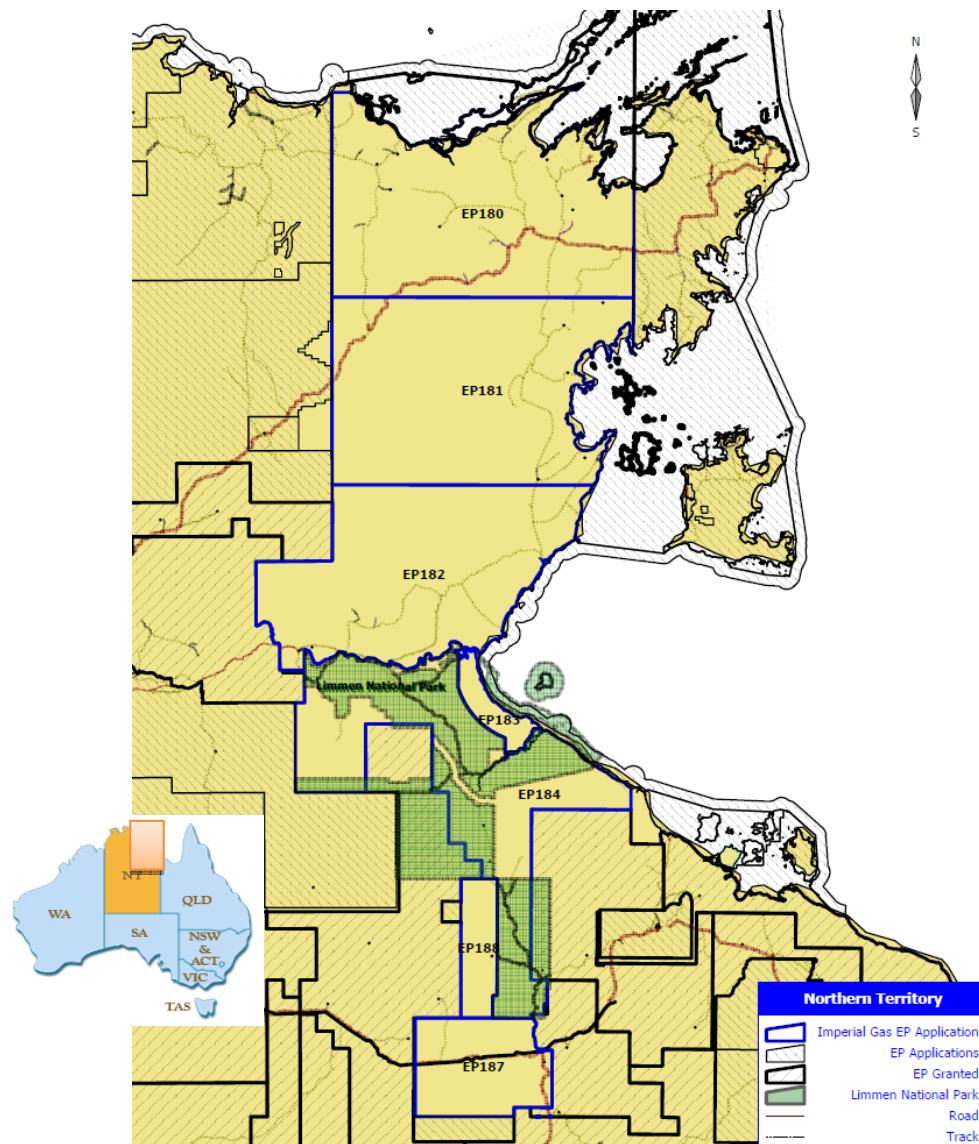
In 2010 Empire Energy Group Limited, through its 100% owned subsidiary Imperial Oil & Gas ("Imperial"), completed a regional opportunity screening and proactively secured 100% interest in 59,000 square km (14.6million acres) of prospective shale gas exploration acreage, approximating to 75% of the entire central trough of the Proterozoic McArthur Basin (Exploration Permit Applications EP(A) 180 – 188) (figure 1).

The McArthur Basin is an underexplored petroleum frontier basin with direct indications of oil & gas. Indeed there has been no petroleum exploration of the Walker Trough in the northern McArthur Basin. Exploration wells drilled in the nearby South McArthur Basin in 2012 discovered gas in the same thick carbon-rich black petroliferous shales that are widespread in Imperial's acreage.

Through to 2013, studies undertaken by the company have confirmed the petroleum potential of the acreage through sampling of the organic content of target shale source rocks and the mineralogical and petrological analysis of a significant number of shale core samples. Geochemical analysis of thermal maturity indicators confirms that the thermal profile of the basin is within the appropriate range for a thermally mature and viable petroleum system. In addition an extensive data mining study of openly available literature has also been undertaken. Sampling of historically acquired core made available through the Northern Territory Geological services core library was undertaken with the assistance of the Adelaide Research Institute University of Adelaide Australian Shale Carbon Sequestration Group ("ASCS").

## Executive Chairman's Review of Operation (Continued)

**Figure 1:** Imperial Oil & Gas location of tenements.



## Executive Chairman's Review of Operation (Continued)

### 1 Proven Petroleum Systems

#### 1.1 Barney Creek Formation

The study identified that the 1.64 billion year old Palaeo-Proterozoic Barney Creek Formation is characterised by rapid lateral facies variations and that there are several time-equivalent litho-facies associations indicating that deposition occurred contemporaneously in isolated mini basins that were subject to syn-sedimentary deformation. Barney Creek Formation sedimentation appears to have been controlled by active syn-depositional strike-slip faults that generated many pull-apart transtensional sub-basins each containing its characteristic mix of litho-facies.

Studies of outcrop core, core logs and historically acquired and publicly available 2D seismic profiles have identified significant subsurface formation thickness changes.

The Geoscience Australia (02GA-BT1) seismic section that transects the Southern McArthur Basin identifies a monoclinical Batten trough in EP188 (Figure 2). As a consequence the Barney Creek formation may have a more predictable lithological composition in this area.

Organic geochemical characterisation of the Barney Creek Formation indicates excellent source rock potential within a number of the sub-basins with maturity beyond the onset of oil generation. Intervals within this formation can exceed 200m in thickness with Total Organic Carbon (TOC) content up to 10.4% (consistently exceed 2%) and Hydrocarbon Indices (HI's) average above 350.

Thermal maturity data, developed by ASCS in a study sponsored by Imperial Oil & Gas in 2013/14 across the Central and Southern McArthur Basin (figure 1) obtained from the analysis of historically acquired core samples, has identified a north to south trend within these parts of the basin. Wells in the northern part of the region studied display higher calculated reflectance values (commonly up to 1.3% while wells in the south display lower values up to 0.9%). The analysis of source potential indicates a typical Van Krevelan type II marine prone oil profile.

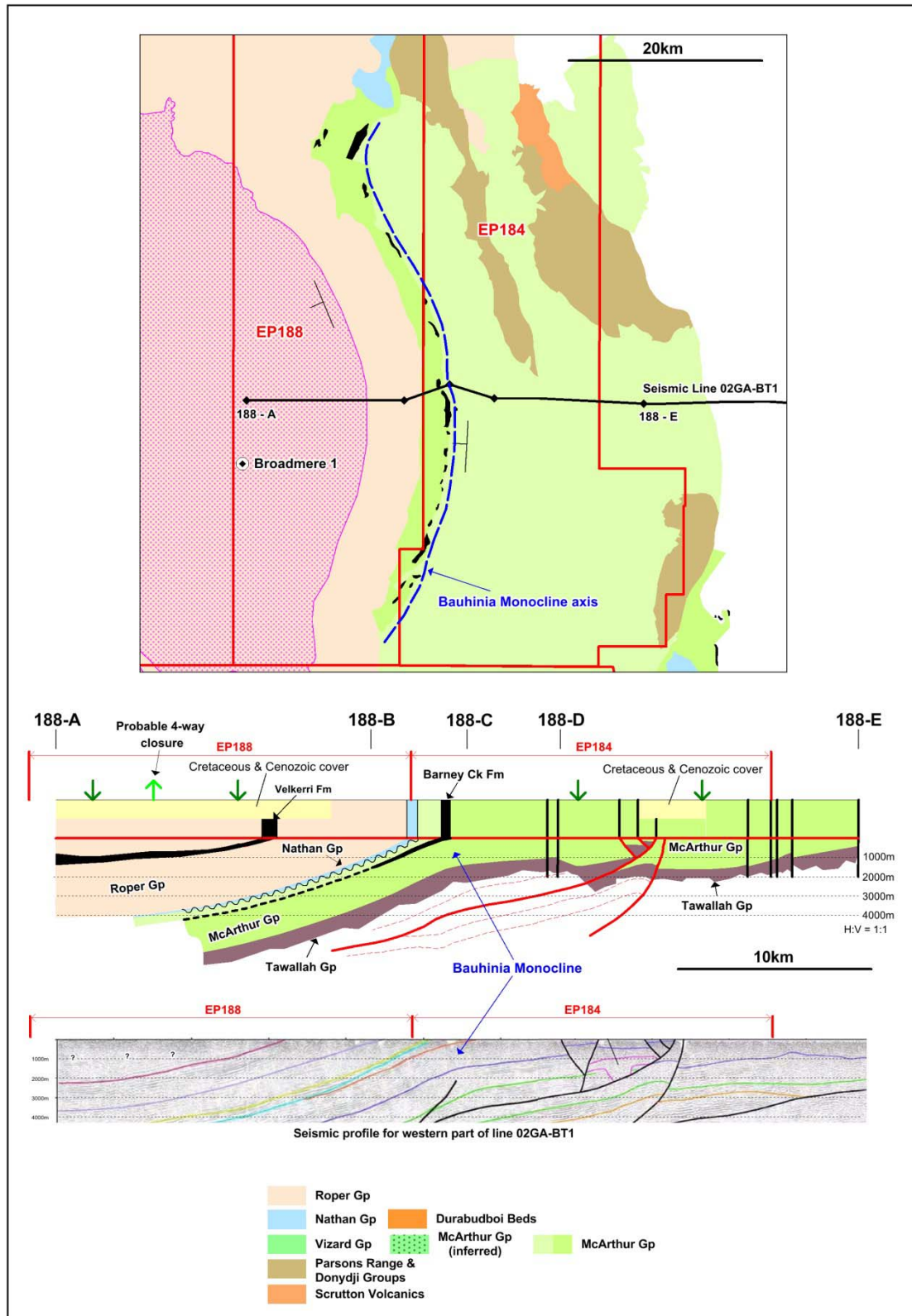
Thermal modelling independent of the well data indicates similar source rock maturity using a burial model that adopts a median thickness of overburden as indicated by the explanatory notes of the 1:250,000 geological mapping sheets for the region. Values obtained from core sample analyses as part of the study using the same burial model allow sediment maturity estimations for the Barney Creek Formation across the basin without the aid of well control.

Extrapolation of the thermal modelling results and organic geochemical trends from the Batten Trough can be achieved utilizing the seismic 02GA section. This predicts that prospective areas are also present west of the Batten Trough to the west of the Bauhinia monocline (figure 2). In addition mineralogical and rock property investigations of the Barney Creek Formation indicate amenability of the formation to hydraulic fracturing. This is evident from the low clay mineral content augmented by extensive dolomitic diagenetic cements.

Porosity within the Barney Creek Formation ranges in samples analysed up to 6.86% being principally inter and intra grain in the meso pores 2550nm and macro pores >50nm size range.

## Executive Chairman's Review of Operation (Continued)

**Figure 2:** The Monoclinal Batten trough in EP188 displaying the Bauhinia Monocline with the position of the Geoscience Australia Seismic line (O2GA-BT1) indicated



## Executive Chairman's Review of Operation (Continued)

The porosity is strongly dependent on the level of cementation since the organic matter porosity contribution is minimal. The presence of silt layers throughout the formation improves the porosity averages.

### 1.2 Velkerri Formation

The 1.4 billion year old Meso-Proterozoic Velkerri Formation is a secondary target within the basin. It overlies, and occupies a separate stratigraphic sequence than the Barney Creek Formation. The study undertaken for Imperial by ASCS has identified the formation to be characterized by lateral continuity in facies developed in an intracratonic marine environment. Sedimentation was dominated by background hemi-pelagic shales punctuated by intervals of high energy deposits of sand.

Studies of outcrop, core logs and seismic profiles identify condensed organic rich intervals in the west where organic pelagic deposits have escaped dilution by shoreline derived siliclastics. The organic geochemical characterization of the Velkerri Formation indicates the presence of good source potential that is matured beyond the onset of oil generation. Intervals can exceed 180m thickness with TOC up to 6.5% (consistently greater than 2%) and HI's averaging above 200.

Source quality is uniform and widespread with the highest source quality related to condensation and correlates with finer grain size allowing predictable mapping of prospective intervals.

A number of unconventional oil plays have been interpreted where the thermal maturity is modelled. These potential leads are corroborated by observed oil shows in well core sections.

Mineralogical investigation highlights generally low clay mineral content in the Velkerri Formation. This is typically smectite and consistent with the interpreted thermal maturity. Brittleness of the formation is high due to pervasive silica cementation indicating the Velkerri Formation will be amenable to hydraulic fracturing.

From the patterns in TOC values and depths to base of the condensed intervals in available core data (Broadmere1, Scarborough 1 and Shea 1) (figure 3) the condensed intervals are broadly coincident with the Middle Velkerri Member and this member is inferred as being of good hydrocarbon potential.



## Executive Chairman's Review of Operation (Continued)

**Figure 3: McArthur Basin proven petroleum system**

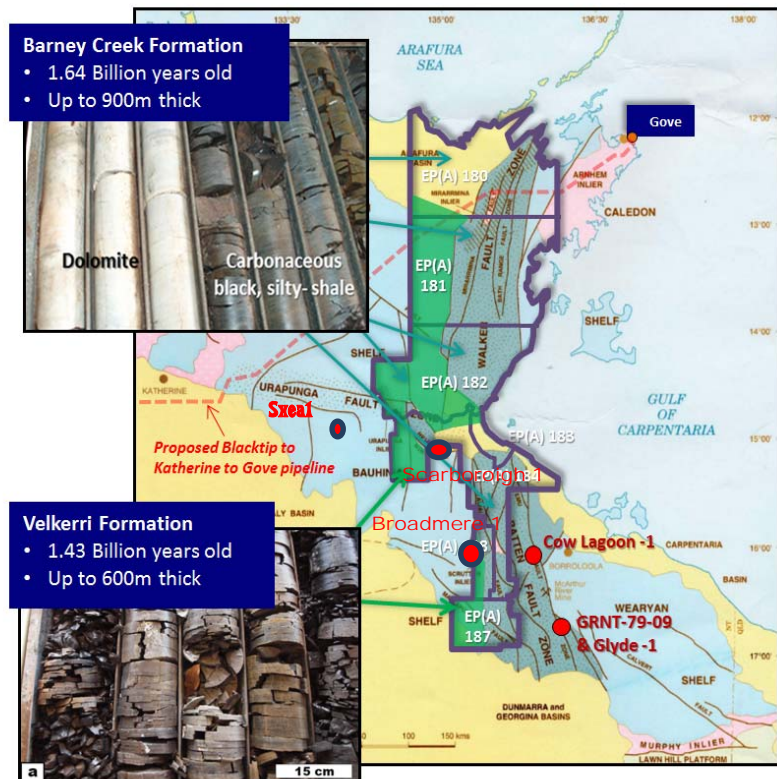
### Proven Petroleum Systems

#### Barney Creek Shales

- ❑ Palaeo-Proterozoic
- ❑ Present over most of Imperial's area
- ❑ Anoxic sulphur-rich black gas shales
- ❑ Up to 900m thick
- ❑ Recent wells flowed naturally
- ❑ Dolomite reservoir directly beneath shale formation

#### Velkerri Shales

- ❑ Meso-Proterozoic
- ❑ Present in west of Imperial's area
- ❑ Laminated black carbonaceous siltstones & mudstones
- ❑ Up to 600m thick
- ❑ Recent wells flowed naturally
- ❑ Sandstone reservoir directly beneath shale formation



Initial assessment of petroleum volumes suggests Imperial's extensive acreage contains multi-Tcf of potential recoverable shale & conventional gas resources as well as associated liquids.

## 2 Resource Potential

Research undertaken by I. H. Crick, C. J. Boreham, A. C. Cook and T. G. Powell (1988) has indicated prospective hydrocarbon generation within the Velkerri of 12.4mmbbl/km<sup>2</sup> and within the Barney Creek Formation of 10.5 mmbbl/km<sup>2</sup>. This report also identified a Van Krevelan type II/III as the dominant the organic carbon type. This early research has been confirmed by the ASCS study including analysis of historically acquired core samples collected from 10 wells variously penetrating the Velkerri, Lynott and Barney Creek Formations within the Basin. The ASCS study was based on 375 samples collected from the Barney Creek Formation, 264 samples from the Velkerri Formation, and 10 samples from the Lynott Formation.

More recent modelling undertaken by the company utilizing the Crick (1988) information in conjunction with the ASCS results has suggested a potential P10 resource of the Velkerri within the Imperial tenements of EP187 and EP188 at 202 MMBOE and a P10 resource of the Barney Creek and equivalent formations across EP(A)180, 181, 182, 183, EP184, EP187 and EP(A)188 as 1,325.1MMBOE .

## 3 Field Operations

A field program was undertaken by imperial within EP184 during October 2013. This involved the mapping of a number of important outcrops and significant structural geological features . During the program additional samples, mostly from the target shale formations, were collected from outcrops for geochemical analyses. Final analyses of these samples were received from

## Executive Chairman's Review of Operation (Continued)

the ASCS in March 2014. The analyses comprised TOC%, SRA, major, trace and rare earth element (REE) analyses, and petrography.

The final Source Rock Analyses of the samples identified that two samples, one of the St Vidgeon Formation and another of the Barney Creek Formation, yielded reflectance values of 1.76 & 1.57% respectively consistent with burial into the prospective gas generation window. Tmax<sup>o</sup>C values measured from these samples of 495<sup>o</sup>C & 485<sup>o</sup>C respectively also place them within the zone of thermogenic gas production.

Mineral analyses of two particular samples obtained in the EP184 October 2013 field program identified the presence of malachite and anomalously high copper and lead values respectively. This is suggestive of hydrothermal fluid movement along the contact zone of the Reward Dolomite and the Barney Creek Formation, and provides possible evidence for both metal and hydrocarbon migration within this horizon.

Imperial continues to maintain and develop excellent relations with Traditional Owners and progress is well advanced in reaching agreement for the granting of the remaining tenements under application.

### 4. Initial Targets

Imperial Oil and Gas has developed plans to drill a number of core holes in the 2014 drilling season within EP184 and (subject to timely grant) will also undertake the drilling of a number of core holes within EP(A) 187 in the McArthur basin. The principal objective of the core holes is to gather fresh samples from the key target shale formation zones of interest in the Barney Creek and the Velkerri Formations. This will help to constrain stratigraphy and shale quality. In addition the company proposes to undertake further detailed Geological Field Mapping & shale sampling in key areas.

Both tenements have topographic surface expression of these target formations that will allow for relatively shallow drilling to obtain fresh rock core samples for further analysis.

Expressions of Interest documents have been forwarded to the drilling industry to source the necessary drilling rig(s) and support equipment including wireline logging services. A number of tenders have been received from interested parties and negotiations have progressed to short list a number of tenders compliant with the terms and conditions of the scope of works.

Additionally, decisions on suppliers of drill bits, casing and other well equipment have been made to adequately source the necessary equipment.

Subject to the results of the analysis of samples from the shallow core drilling campaign the company will drill a number of exploration wells in deeper segments of the basin to investigate prospective geological structures and gather in-situ formation and gas data from intervals predicted to comprise good quality thermally mature shale and to test for the presence of live oil and gas.

The objective of the early exploration wells is to investigate those parts of the basin where Imperial's studies to date suggest have the highest chance of penetrating thick, high quality and thermally mature gas or oil shales.

Samples from within the exploration wells will be obtained for further analysis of petroleum generative potential and thermal maturity of the source rocks, further mineral analysis will be undertaken and an initial determination of porosity and matrix permeability made.

## Executive Chairman's Review of Operation (Continued)

In combination with the core and exploration drilling program Imperial will undertake a second geological field mapping program within EP184. The objective is to better define the faulted structure in the St Vidgeon region and constrain the western margin of the Batten Folded Zone and how it relates to the on-lap of the overlying Beetaloo sub basin. Modelling of the available data including the existing seismic data suggests that the Barney Creek Formation (and equivalent(s)) may extend further to the west than currently mapped on the 1:250K geology maps of the Northern Territory Geological Service (NTGS).

The company will incorporate the resulting observations and information from this second field mapping program into its planning for any future seismic acquisition and drilling programs.

Through the 2014 mapping, coring and exploration drilling program the company expects to further refine the high potential zones and to consolidate on its Prospects and Leads Inventory for the basin. The initial drilling targets exist in areas in proximity to existing live oil and gas finds and to the existing Mereenie to Darwin and McArthur River Mine gas pipeline infrastructure.

The company has recently retained on short term contract the services of a junior Geophysicist as part of a work experience assignment in conjunction with the University of Leeds, UK. The Geophysicist will contribute to the interpretation of the existing seismic data and work with the company Geologists to develop the company's understanding of the structural model and architecture of the basin. Along with Imperial's Geological team the Geophysicist will be involved in planning for future seismic acquisition programs.

Recent gravity data made available by the NT Geological Survey for the northern portion of EP184 and the adjacent Beetaloo sub Basin in late 2013 has provided additional data across the northern portion of the Batten folded Zone within the McArthur Basin. These data suggest the presence of additional sub basins within the central portion of the trough within EP184 and are currently being quantified by Imperial.

### 4.1 Priority Targets

A Common Risk Segment (CRS) map (figure 4) has been developed and refined for the target regions with the incorporation of the historically acquired seismic and well data and the data available from the ASCS research project sponsored by the company in 2013. The CRS maps qualify where the optimum quality shale targets are likely to be located.

The review undertaken over the last three months has allowed the further development of the CRS maps to optimally locate the most prospective part of the basin where mature source, reservoir and cap rocks are predicted to be present. A number of significant anticlines have been identified within the region that have the potential to be conventional four-way dip-closed structural traps in the subsurface. These structures require additional seismic data to confirm their subsurface geometry.

Correlation of existing historical well data throughout the McArthur Basin has been undertaken and this data has been used to generate a thermal model of the target areas within the basin. This thermal model clearly establishes the majority of the region covered by the CRS map to contain segments prospective for oil and others predominantly for gas.

This conclusion is supported by the reflectance values reported from analysis of samples within both the Barney Creek Formation and its equivalents and the Velkerri formation. These values are consistent with those reported by independent researchers such as Cook A.C., Crick. I, and others.



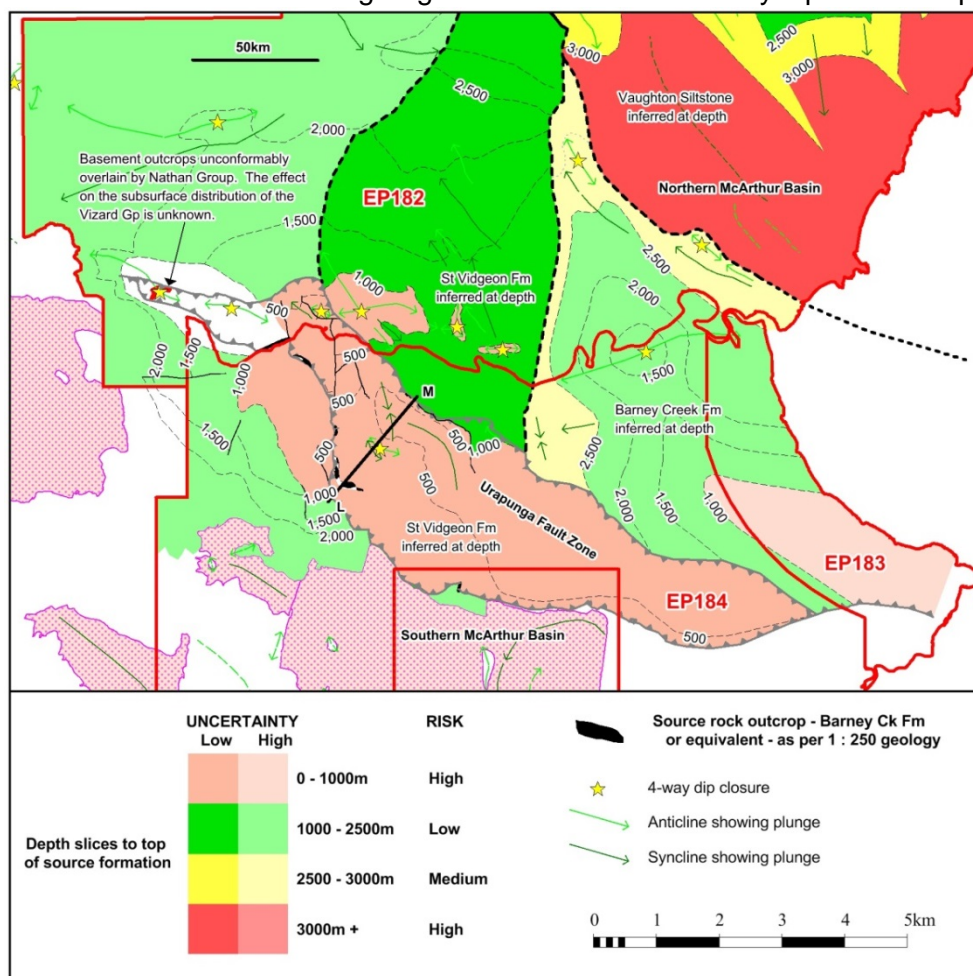
## Executive Chairman's Review of Operation (Continued)

Historical acquired data from nearby wells drilled within the Urapunga region, northern western portion of EP184 and southern western portion of EPA(A)182, Mt Young and the Southern McArthur Basin (EP184 and EP(A)188) demonstrate the reflectance values are consistently within the required range for the generation of both oil and gas. Additionally, the gas flows achieved in the nearby Cow Lagoon and Glyde wells drilled by Armour Energy in 2012 further support this finding.

### 4.2 Conventional Petroleum Reservoirs

While unconventional shales provide the primary oil & gas target there are associated carbonate and clastic formations that offer incremental conventional resource potential. Imperial's primary objective for the initial seismic and drilling campaign is to constrain the potential for commercially viable shale petroleum resources.

In addition, the structural modelling work has identified a number of potentially large four-way dip-closed traps in the areas targeted for initial exploration. These targets will be evaluated for potential conventional reservoirs in such structures while maintaining a direct focus on shale targets. The potential conventional traps will be targeted as initial exploration well locations, with the shale horizons being targeted beneath the four-way dip-closed traps.



**Figure 4:** depth map for the Barney Creek, St Vidgeon formation, Vizard group and Vaughton Siltstone prospective formations within the northern portion of EP184 and southern portion of EP(A)182

## Executive Chairman's Review of Operation (Continued)

### 5. Permitting

Land access and permit grant in six of the seven permit application areas requires approval of the Traditional Aboriginal Landowners given they are in Aboriginal Freehold Land. The 'on-country' meetings (figure 5) with Traditional Owners held to date has seen strong support to negotiate the terms of Exploration Agreements for each area.

EP184 was the first permit to be granted to Imperial on 21<sup>st</sup> August 2013. Subsequent to this an agreement was reached with the Local Aboriginal Groups under the Aboriginal Land Rights Act for EP(A)187. This tenement is expected to be awarded by the NT Department of Mines and Energy in March 2014.

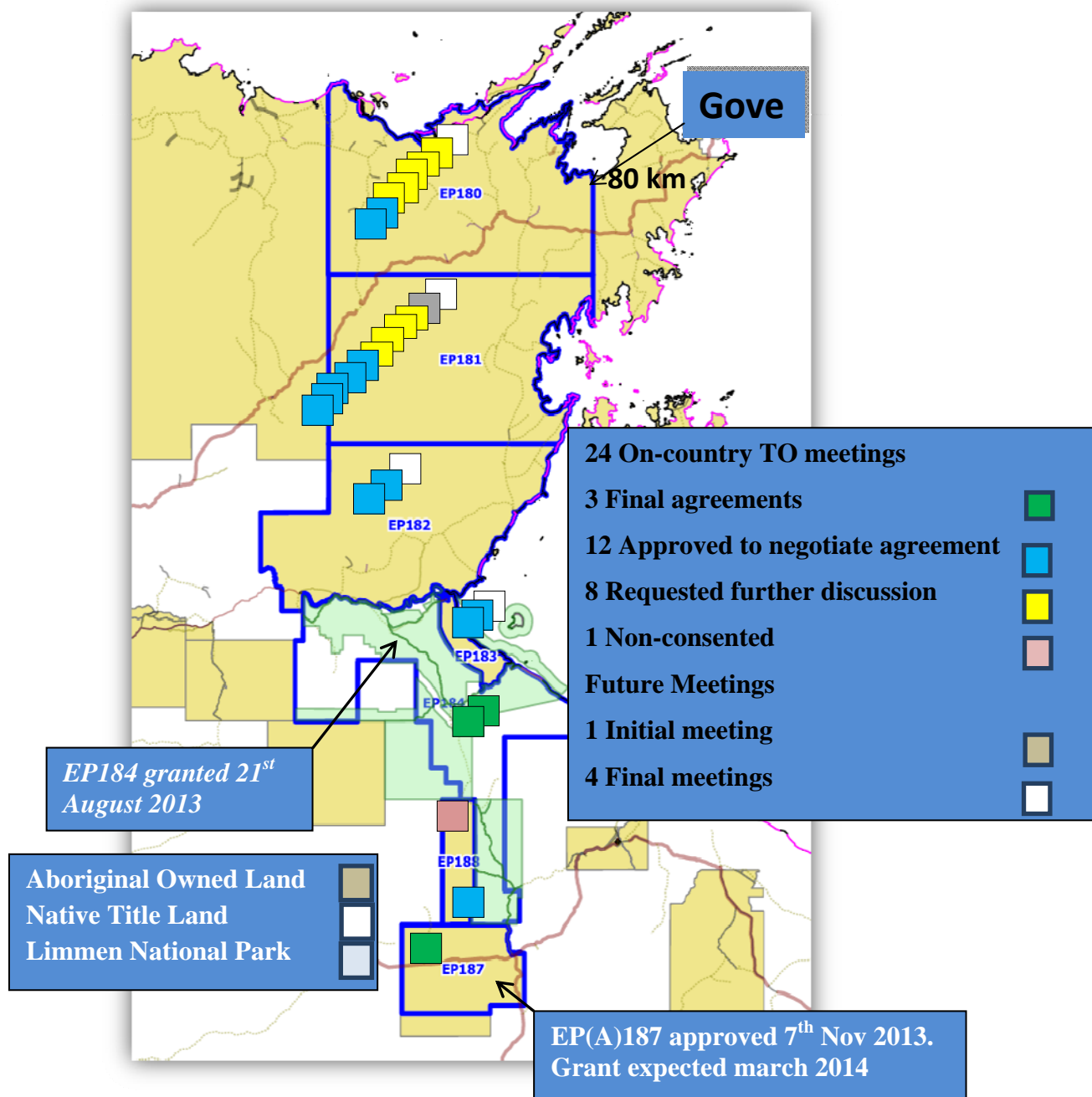
In late 2013 approval to proceed to grant of the area EP(A) 187 was provided by the relevant local Aboriginal groups and this tenement is expected to be granted by the Commonwealth under the aboriginal Land Rights Act in March 2014.

Final on country meetings for EP(A)183 are to be held in April 2014 with presentation of the agreement to the following full council meeting of the Northern Land Council (NLC) at the next available sitting currently scheduled for May 2014.

EP(A) 180, 181 and 182 have been ethnographically surveyed and final negotiations towards an agreement will be undertaken during the second quarter of 2014. During the same timeframe Imperial's desired outcome is for the final on county meetings for these tenements to take place followed by presentation of the final agreement to the full council of the NLC at the second sitting planned for later in the year.

## Executive Chairman's Review of Operation (Continued)

Figure 5: on country meetings by tenement



The information in this report which relates to reserves is based on information compiled by Ralph E Davis Associates Inc, Houston, Texas, and LaRoche Petroleum Consultants Ltd., Dallas, Texas, both certified professional petroleum engineers with over five years' experience and are qualified in accordance with the requirements of Listing Rule 5.11. Neither Ralph E Davis Associates Inc, nor LaRoche Petroleum Consultants Ltd., nor any of their employees have any interest in Empire Energy E&P, LLC or the properties reported herein.

**Note Regarding Forward- Looking Statements**

Certain statements made and information contained in this press release are forward-looking statements and forward looking information (collectively referred to as "forward-looking statements") within the meaning of Australian securities laws. All statements other than statements of historic fact are forward-looking statements.

## DIRECTORS' REPORT

### for the financial year ended 31 December 2013

In respect of the financial year ended 31 December 2013, the Directors of Empire Energy Group Limited ("Company") present their report together with the Financial Report of the Company and of the consolidated entity ("Empire Group"), being the Company and its controlled entities, and the Auditor's Report thereon.

#### DIRECTORS

The following persons held office as Directors of Empire Energy Group Limited at any time during or since the end of the financial year:

B W McLeod	Executive Chairman
D H Sutton	Non-Executive Director
K A Torpey	Non-Executive Director

All the Directors have been in office since the start of the financial year unless otherwise stated.

#### PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the consolidated entity consisted of:

The acquisition, development, production, exploration and sale of oil and natural gas. The Empire Group sells its oil and gas products primarily to owners of domestic pipelines and refiners located in Pennsylvania, New York and Kansas.

Reviewing new exploration, development and business opportunities in the oil and gas sector to enhance shareholder value.

Current initiatives are centred on the McArthur Basin in the Northern Territory.

#### CONSOLIDATED RESULTS

The consolidated net loss of the Empire Group for the financial year ended 31 December 2013 after providing for income tax was US\$1,038,775 compared to a consolidated net loss for the previous corresponding reporting period of US\$203,577.

#### REVIEW OF OPERATIONS

For information on a review of the Empire Group's operations refer to the Executive Chairman's Review of Operations Report contained on pages 5 to 27 of this annual report.

#### DIVIDENDS

The Directors have not recommended the payment of a final dividend.

#### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial period were as follows:

##### (i) Capital Structure

Contributed equity of the Company increased by US\$357,683 (from US\$73,325,555 to US\$73,683,238) during the financial period as a result of:

	<b>US\$</b>
- Issue of 4,000,000 shares in September 2013	372,520
Less transaction costs associated with the above mentioned share issues	(14,837)
	<u>357,683</u>

The shares were issued for nil cash consideration as a component of the buyback of the minority interest equity holder in the Empire Energy USA LLC.

## **Directors' Report**

### **for the year ended 31 December 2013**

#### **(ii) Buy back of minority Interest**

In September 2013 the Company completed the buyback of 40,000 units in Empire Energy USA LLC ('EEUSA') representing 3.6% of the total units and warrants on issue. The effective date of the transaction was 1 January 2013. EEUSA is now a 100% owned subsidiary of the Company.

#### **Likely Developments**

Except for information disclosed on certain developments and the expected results of those developments included in this report under review of operations, further information on likely developments in the operations of the consolidated entity and the expected results of those operations have not been disclosed in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

#### **MATTERS SUBSEQUENT TO BALANCE DATE**

##### **1) Drawdown on Finance Facility**

In February 2014 the Company announced they had altered the terms of the Company's existing finance facility to allow additional flexibility to drawdown up to US\$2 million.

Under the new terms the Company has drawn down US\$1million. As a component of this drawdown the Company has issued to Macquarie Bank Limited 4,250,000 unlisted options over ordinary shares in the issued capital of Empire Energy Group Limited exercisable at A\$0.12, expiring 26 February 2016.

##### **2) Exploration Permit**

On 7 November 2013 an Exploration Agreement was reached between Imperial Oil & Gas Pty Ltd and the traditional owners in the petroleum exploration area EP(A) 187. Permit grant is expected in April 2014. Granting of the exploration permit will allow on-ground exploration activities to commence.

There were no other matters or circumstances that have arisen since 31 December 2013 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2013, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2013 of the Empire Group.

#### **INFORMATION ON DIRECTORS**

**Bruce William McLeod**, B.Sc (Maths), M.Com (Econ)      Age 61  
**Executive Chairman**

##### **Experience and Expertise**

Mr McLeod has had extensive experience in the Australian capital markets. Over the past 20 years he has been involved in raising debt and equity capital for a number of resource, property projects and companies, as well as the takeover and rationalisation of listed and unlisted companies. Prior to this he spent 6 years with a major international bank, where he was Executive Director, responsible for the financial and capital markets operations.

Appointed a Director of the Company on 21 May 1996.

##### **Special Responsibilities**

Chairman of the Board – Chief Executive Officer  
Member of Audit Committee

##### **Other Current Directorships**

Chairman of Mayan Iron Corporation Ltd.

##### **Former Directorships in Last 3 Years**

Carnegie Wave Energy Limited from 1 November 1996 to 6 May 2011.

**David Henty Sutton**, B.Com ACIS      Age 70  
**Non-Executive Director**

##### **Experience and Expertise**

Mr Sutton has many years' experience as a Director of companies involved with share broking and investment banking. He currently owns and manages Dayton Way Financial Pty Ltd, a boutique financial services company focussing on the global resource sector.

## **Directors' Report**

### **for the year ended 31 December 2013**

Prior to his current role he was a partner and director of several securities exchange member firms. He became a member of the Stock Exchange of Melbourne and subsequently Australian Securities Exchange Limited.

Appointed a Director of the Company on 17 January 1997.

#### **Special Responsibilities**

Member of Remuneration Committee  
Member of Audit Committee

#### **Other Current Directorships**

Chairman of Silver Mines Limited, AAT Corporation Limited, Precious Metals Investments and Chairman of Sinovus Mining Limited.

#### **Former Directorships in Last 3 Years**

Director of Earth Heat Resources Ltd from 14 October 2007 to 11 May 2011.

**Kevin Anthony Torpey**, B.E., MIE Aus., CP Eng, FAusIMM, (CP)      Age 75  
**Non-Executive Director**

#### **Experience and Expertise**

Mr Torpey is a Chartered Professional Engineer and a graduate from Sydney University. Over the last 40 years he has been involved in the development of many diverse major projects involving oil, iron ore, aluminium, nickel, lead/zinc, uranium, magnesite, coal and gold, located locally and in Ireland and Indonesia.

Generally these projects have been associated with major companies such as Consolidated Goldfields, EZ Industries, Alcan, International Nickel, Tara Minerals Limited (Ireland), Noranda, Denison Mines (Canada), Toyota, Mitsubishi and Iwatani. For the last 20 years his association has mainly been as a corporate officer initially as Managing Director of Denison Mines (Australia) and then Managing Director of Devex Limited. Over the last few years he has acted as a consultant to a number of companies involved in mining projects and new technologies.

Appointed a Director of the Company on 26 November 1992.

#### **Special Responsibilities**

Member of Remuneration Committee  
Member of Audit Committee

#### **Other Current Directorships**

Non-Executive Director of Latrobe Magnesium Limited

#### **Former Directorships in Last 3 Years**

None

#### **COMPANY SECRETARY**

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##### **Rachel Ryan**

Ms Ryan was employed in the Company's Corporate Finances division in February 2006. She was appointed Joint Company Secretary on 21 July 2010 and assumed the role of Company Secretary on 31 July 2013. Ms Ryan also serves in the role of General Manager Operations.

##### **David Hughes**

Mr Hughes was appointed to the position of Company Secretary on 11 November 1992. Before joining Empire Energy Group Limited he has held similar positions with other listed companies for over 20 years. Mr Hughes resigned as Company Secretary on 31 July 2013, Mr Hughes continues with the Company in an advisory role.

#### **EXECUTIVES**

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##### **Kylie Arizabaleta** B.Bus (Acct) (Fin)

##### **Financial Controller**

Ms Arizabaleta was appointed to the position of Financial Controller on 5 March 2012. Before joining Empire Energy Group Limited she worked in the public practice as an external auditor and holds over 8 years' experience.



## Directors' Report for the year ended 31 December 2013

**Dr John Warburton** (FGS, MAICD)

**Director & CEO, Imperial Oil & Gas Pty Ltd**

Dr Warburton was appointed as an advisor to the Empire Group in February 2010 and as a director and Chief Executive Officer to the Company's wholly owned subsidiary Imperial Oil and Gas Pty Ltd on 18 March 2011. A Geoscientist by profession, Dr Warburton has 28 years of technical and leadership experience in International Petroleum E&P including 11 years with BP and 4 years as General Manager Exploration & New Business for LASMO-Eni in Pakistan. Dr Warburton is the Director of Sydney-based Petroleum Exploration Business Consultancy Insight Exploration and he maintains a strong global executive network.

Dr Warburton's extensive operated & non-operated petroleum expertise covers the Middle East, Kazakhstan, Azerbaijan, North & West Africa, Pakistan, Europe, Australia, New Zealand, PNG, SE Asia, China, Korea and Japan. John has been involved in the discovery of commercial oil & gas fields in Pakistan, UK, Kazakhstan, Azerbaijan and PNG and he has published 28 internationally recognised technical articles with particular focus on petroleum exploration in complex fold and thrust belts.

Dr Warburton has a First Class B.Sc. Honours Degree in Geological Sciences and a Ph.D. in Structural Geology. He is a Member of the Australian Institute of Company Directors, an Alumni of Cranfield Business School UK and a Fellow of the Geological Society of London. Insight Exploration is a Sustaining Member of the Petroleum Exploration Society of Great Britain.

**Geoff Hokin**

**Explorations & Operations, Imperial Oil & Gas Pty Ltd**

Mr Hokin has 9 years' experience as a field geologist in the unconventional gas and coal sectors, with various senior geologist roles with a number of companies including Armour Energy Limited, Metgasco Limited and Arrow Energy Limited. Mr Hokin has extensive geological and business experience in other operations.

### MEETINGS OF DIRECTORS

The number of Directors' meetings and committee meetings held and the attendance by each of the Directors of the Company at those meetings during the financial year were:

Director	Directors' Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
	Attended	Held Whilst in Office	Attended	Held Whilst in Office	Attended	Held Whilst in Office
Mr B W McLeod	14	14	-	-	2	2
Mr D H Sutton	14	14	2	2	2	2
Mr K A Torpey	14	14	2	2	2	2

The audit committee comprises the full Board of Directors. Mr D H Sutton and Mr K A Torpey were members of the remuneration committee during the financial year.

### Retirement, Election and Continuation in Office of Directors

Mr K A Torpey is the Director retiring by rotation at the next Annual General Meeting in accordance with Article 50.1 of the Company's Constitution and being eligible offers himself for re-election.

## Remuneration Report – Audited

This report outlines the remuneration arrangements in place for Directors and Executives of the Empire Group.

### REMUNERATION COMMITTEE

The Remuneration Committee reviews and approves policy for determining executives remuneration and any amendments to that policy. The Committee makes recommendations to the Board on the remuneration of Executive Directors (including base salary, incentive payments, equity awards and service contracts) and remuneration issues for Non-Executive Directors.

The members of the Remuneration Committee during the period were:

D H Sutton – Independent Non-Executive - Chairman

K A Torpey – Independent Non-Executive

## Directors' Report for the year ended 31 December 2013

The Committee meets as often as required but not less than once per year. The Committee met twice during the period and Committee member's attendance record is disclosed in the table of Directors Meetings shown above.

### Executive Directors' and Executive Remuneration

Executive remuneration and other terms of employment are reviewed annually and are based predominantly on the past year's growth of the Empire Group's net tangible assets and shareholder value, having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation and other bonuses and incentives linked to predetermined performance criteria. Executive Directors and executives are able to participate in an Employee Share Option Scheme.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Consolidated Entity's operations. Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

### Performance Based Remuneration

As part of the Executive Directors' remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between executives and that of the Empire Group and shareholders.

Performance in relation to the KPIs will be assessed annually, with bonuses being awarded depending on performance of the Empire Group over the past year. Following the assessment, the KPIs will be reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency assessed in relation to the Empire Group's goals and shareholder wealth, before KPIs are set for the following year.

### Non-Executive Directors' Remuneration

Remuneration of Non-executive Directors is determined by the Board based on recommendations from the Remuneration Committee and the maximum amount approved by shareholders from time to time. Non-executive Directors are also able to participate in an Employee Share Option Scheme.

The Board undertakes an annual review of its performance and the performance of the Board Committees against goals set at the start of the year. Details of the nature and amount of each element of the remuneration of each Director and each specified executive of the Empire Group receiving the highest remuneration are set out in the following tables.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2013	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave	Share/option based payments*	Total US\$
<b>Directors</b>							
B W McLeod	385,237	-	58,520	-	-	151,981	595,738
K A Torpey	19,359	-	-	1,742	-	26,134	47,235
D H Sutton	-	-	-	19,359	-	26,134	45,493
J Warburton	275,763	-	-	-	-	-	275,763
<b>Empire Energy Executives</b>							
A Boyer	173,000	-	46,667	-	-	18,104	237,771

\* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to \$0. The Cost of the above options issued under the ESOP over the year was \$222,353 the loss on options relating to the above directors that expired over the year was \$131,116. The net cost of options issued to the above directors and executives for the year was \$91,237.



## Directors' Report

### for the year ended 31 December 2013

December 2012	Short term benefits			Post-employment benefits	Long-term benefits	Share/option based payments*	Total US\$
	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave		
<b>Directors</b>							
B W McLeod	362,495	113,927	28,540	-	-	302,923	807,885
K A Torpey	20,714	-	-	1,864	-	16,395	38,973
D H Sutton	-	-	-	20,714	-	16,395	37,109
J Warburton	221,114	-	-	-	-	-	221,114
<b>Empire Energy Executives</b>							
A Boyer	156,000	-	39,481	-	-	7,571	203,052

\* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of options issued. Once the options reach vesting date, the cost shown amortises to \$0. The Cost of the above options issued under the ESOP over the year was \$343,284 the loss on options relating to the above directors that expired over the year was \$250,585. The net cost of options issued to the above directors and executives for the year was \$92,699.

### Service Agreements

Remuneration and other terms of employment with Mr B W McLeod (Executive Chairman) have been formalised in a service agreement. The terms of this agreement are as detailed below:

Terms of the agreement:

- Base salary of A\$398,000 per annum to be reviewed at least annually by the remuneration committee
- Payment of termination benefits apply other than for gross misconduct
- Performance based incentive bonus based on annual performance set against key performance indicators
- Long term incentives occurring up on the monetisation of an asset, this long term incentive continues beyond term of the agreement
- Other benefits include provision of fully maintained motor vehicle, participation in the Company's executive option plan and membership of Empire Energy USA, LLC management incentive scheme.

The terms of the agreement have been approved by the remuneration committee.

There are no other service agreements in place formalising the terms of remuneration of directors or specified executives of the Company and the consolidated entity.

### Loans to Directors and Executives

There were no loans made to Directors or Specified Executives of the Company and the consolidated entity during the period commencing at the beginning of the financial period and up to the date of this report.

There are no loans outstanding at the date of this report.

### Share Options Granted to Directors and Specified Executives

During the financial year 6,500,000 executive options to acquire ordinary shares were granted to Directors and specified executives of the Company. 3,000,000 executive options were granted to a Director following the approval of shareholders at an annual general meeting of members of the Company held on 31 May 2013. In addition 3,500,000 executive options were granted to specified executives of the Company.

All options were issued pursuant to the Company's Employee Share Option Plan which provides vesting restrictions based on minimum term of employment conditions.

At the date of this report there were 13,500,000 unissued shares held under option to Directors and specified executives. These options are exercisable on the following basis:

Number	Executive Options	Exercise Price A\$	Expiry Date
7,000,000	executive options	\$0.35	31 December 2014
1,500,000	executive options	\$0.18	31 December 2015
5,000,000	executive options	\$0.17	31 December 2015
13,500,000			

## Directors' Report for the year ended 31 December 2013

### Directors' Interests and Benefits

The relevant interest of each director and specified executive in the share capital of the Company as at the date of this report is:

#### Particulars of Interests in the Issued Capital of the Company

Director	Direct Interest		Indirect Interest	
	Shares	Options	Shares	Options
B W McLeod	165,239	-	7,073,126	5,000,000
D H Sutton	438,301	-	194,999	750,000
K A Torpey	118,055	-	2,073,394	750,000

## End of Audited Remuneration Report

### SHARE OPTIONS

#### Movements

##### Grant of Options

During the financial year 6,500,000 executive options to acquire ordinary shares were granted pursuant to the terms of the Company's employee share option plan. Vesting of these options is subject to minimum period of employment conditions. The options were granted on the following terms:

No. of Options	Executive Options	Exercise Price A\$	Expiry Date
5,000,000	executive options	\$0.17	31 December 2015
1,500,000	executive options	\$0.18	31 December 2015

Since the end of the financial year 4,250,000 unlisted options have been granted to Macquarie Bank Limited as a component for amending the existing terms of the Company's credit facility allowing the Company to drawdown US\$1 million. The unlisted options are exercisable at A\$0.12 and expire 26 February 2016.

##### Exercise of Options

No options were exercised during the financial year or in the period since the end of the financial year and up to the date of this report.

##### Expiry of Options

66,666 unlisted options exercisable at A\$0.1575 were not exercised by their expiry date of 5 March 2013 and as a consequence have lapsed.

3,500,000 unlisted options exercisable at A\$0.15 were not exercised by their expiry date of 1 July 2013 and as a consequence have lapsed.

1,650,000 unlisted options exercisable at A\$0.17 were not exercised by their expiry date of 1 July 2013 and as a consequence have lapsed.

1,650,000 unlisted options exercisable at A\$0.18 were not exercised by their expiry date of 31 December 2013 and as a consequence have lapsed.

At the date of this report the total number of unissued shares held under option was 13,500,000. These options are exercisable on the following terms.

Number		Exercise Price A\$	Expiry Date
7,000,000	Executive options	\$0.35	31 December 2014
1,500,000	Executive options	\$0.18	31 December 2015
5,000,000	Executive options	\$0.17	31 December 2015
13,500,000			

### PERFORMANCE RIGHTS

During the financial year the Company issued 2,500,000 Performance Rights over fully paid ordinary shares in the Company as part consideration for the buy back of the minority interest equity holder in Empire Energy USA LLC.

## Directors' Report for the year ended 31 December 2013

The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interest Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

Fair Market Value of Consideration Received by the Company	Performance rights exercisable
Less than \$25.0 million	0.0%
At least \$25.0 million but less than \$45.0 million	Percentage calculated by dividing Fair Market Value of Consideration received by the Company by \$45.0 million.
\$45.0 million or more	100.0%

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.

### DIRECTORS' AND OFFICERS' INDEMNITIES AND INSURANCE

During the financial year Empire Energy Group Limited paid an insurance premium, insuring the Company's Directors (as named in this report), Company secretaries, executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in the insurance contract prohibits disclosure of the amount of the premium and the nature of insured liabilities.

#### Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

#### Environmental Regulations

There are significant environmental regulations surrounding mining activities which have been conducted by the Empire Group. However, there has been no breach of these regulations during the financial period or since the end of the financial period and up to the date of this report.

#### Declaration by the Chief Executive Officer and Chief Financial Officer

The Directors have received and considered declarations from the Chief Executive Officer and Chief Financial Officer in accordance with Section 295A of the *Corporations Act*. The declaration states that in their opinion the Company's and Consolidated Entity's financial reports for the financial year ended 31 December 2013 present a true and fair view in all material aspects of the financial position and performance and are in accordance with relevant accounting standards.

#### Non-Audit Services

The Directors are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditors behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Details of amounts paid or payable to the auditor for non-audit services are outlined in Note 34 to the financial statements.

The audit firm is engaged to provide tax compliance services. The Directors believe that given the size of the Empire Group's operations and the knowledge of those operations by the audit firm that it is appropriate for the auditor to provide these services. The Directors are of the opinion that these services will not compromise the auditor's independence requirements of the *Corporations Act 2001*.

## **Directors' Report** **for the year ended 31 December 2013**

### **Auditors' Independence Declaration Under Section 307 of the *Corporations Act 2001***

A copy of the Auditors' Independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 37 and forms part of the Director's Report for the financial year ended 31 December 2013.

### **Auditor**

Nexia Court & Co continues in office in accordance with Section 327 of the *Corporations Act 2001*. No officers of the Empire Group were previously partners of the audit firm.

This report is made in accordance with a resolution of the Directors.



**B W McLEOD**

**Director**

Sydney 31 March 2014

## AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors  
Empire Energy Group Limited  
Level 7, 151 Macquarie Street  
SYDNEY NSW 2000

31 March 2014

Dear Board Members

### **Auditor's Independence Declaration under section 307C of the *Corporations Act 2001***

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Empire Energy Group Limited.

As lead audit partner for the audit of the financial statements of Empire Energy Group Limited for the financial year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Yours sincerely



**Nexia Court & Co.**  
*Chartered Accountants*



**Robert Mayberry**  
*Partner*

#### **Sydney Office**

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Independent member of Nexia International



## Corporate Governance Statement

### OVERVIEW

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the “Principles of Good Corporate Governance and Best Practice recommendations” set by the ASX Corporate Governance Council (“CGC”).

However, given the current size of both the Company’s operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations. Where a recommendation has not been adopted this fact has been disclosed together with the reasons for the departure.

Consistent with the ASX best practice recommendations, the Company’s corporate government practices are regularly reviewed and are available on the Company’s website. [www.empireenergygroup.net](http://www.empireenergygroup.net)

### Compliance with ASX Corporate Governance Council best practice recommendations

The ASX listing rules requires public listed companies to include in their annual report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations. This statement provides details of the Company’s adoption of the best practice recommendations.

### PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

#### Board Responsibilities

The Board of directors is accountable to shareholders for the performance of the Company. In carrying out its responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board’s responsibilities are encompassed in a formal charter published on the Company’s website. The charter is reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company’s auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

#### Directors’ Education

The Company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

#### Role of Chairman and Chief Executive Officer (CEO)

The Chairman is also the Chief Executive Officer and is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring the Directors are properly briefed for meetings. The Chairman is also responsible for implementing the consolidated entity’s strategies and Board policies.

The Chief Executive Officer has been delegated responsibility for managing the day to day operations of the Empire Group.

A formal charter is in place which lays out the duties and responsibilities of the CEO. This charter also requires that the responsibilities and accountabilities of both the board of directors and the CEO are clearly defined. The assessment and monitoring of the CEO is the responsibility of the board.

Performance is assessed against pre-determined objectives on a regular basis.



## Corporate Governance Statement

The Chairman's other responsibilities include:

- Ensuring that general meetings are conducted efficiently and that shareholders have adequate opportunity to air their views and obtain answers to their queries.
- Present the view of the Board formally.

### PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

#### Composition of the Board

Currently the Board of Directors comprises three members, one executive non-independent Director, who is also the Chairman and Chief Executive Officer and two non-executive independent Directors, all of whom have a broad range of skills and expertise.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The Company does not comply with recommendations 2.2 and 2.3 which provides that the chair should be an independent Director and the role of the chair and CEO should not be exercised by the same individual.

At this stage of the Company's development, the board considers it is neither appropriate nor cost effective for there to be an independent chairman and a separate CEO.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The board considers that its composition provides for the timely and efficient decision making required for the Empire Group in its current circumstances.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of seven.

Details of the members of the board, their experience, expertise and qualifications are set out in the Director's Report on pages 29 to 31.

The position/status and term in office of each Director at the date of this report is as follows: -

Name of Director	Position/Status	Term in Office
Bruce McLeod	Executive Chairman – Non-Independent	18 years 4 months
David Sutton	Non-Executive – Independent	17 years 8 months
Kevin Torpey	Non-Executive – Independent	21 years 10 months

The Board currently holds up to 12 scheduled meetings each financial year together with any ad hoc meetings as may be necessary. The Board met 14 times during the year and Directors attendance is disclosed on page 31 of the Directors' Report.

#### Access to independent professional advice

All directors are required to bring an independent judgment to bear on Board decisions. To facilitate this, each Director has the right of access to all relevant Company information and to the Company's Executives. The directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is co-ordinated through the Chairman of the Board.

#### Nomination committee

The Company does not comply with recommendation 2.4 in that the board has not yet formed a separate nomination committee. All matters that would normally be responsibility of a nomination committee are dealt with by the full board of Directors.

The Company has not adopted recommendation 2.4 as the board considers that the Company and the board are currently not of sufficient size to justify the establishment of a separate nomination committee.

## Corporate Governance Statement

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders. For directors retiring by rotation, the board assesses that director before recommending re-election.

### Board performance evaluation

The Company has processes in place to review the performance of the board and its committees and individual directors. Each year the board of directors give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

Individual directors use an approved form to assess the performance of the Board and the Chairman.

## PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Companies should actively promote ethical and responsible decision making.

### Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for Empire Group's ethical practices. A copy of these documents has been posted on the Company's website.

### Approach to diversity

The Board recognises the benefits of diversity at boards in senior management and within the organisation generally and recognises the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity brings to an organisation.

The Company has established a diversity policy which set out the beliefs, goals and strategies of the Company and makes reference to all the characteristics that makes individuals different from each other. The policy sets out the positive steps taken to ensure that current and prospective employees are not discriminated against, either directly or indirectly on such characteristics as gender, age, disability, marital status, sexual orientation, religion, ethnicity or any other area of potential difference. The Company is committed to gender diversity at all levels of the organisation. Gender equality is a key component of the Company's diversity strategy. The implementation of this policy aims to reflect both the circumstances of the Company and the industry in which it operates.

The Company's diversity policy includes a requirement that:

- the Board establish measurable objectives for achieving gender diversity; and
- the Board assess annually the objectives set for achieving gender diversity; and
- the Board assess annually the progress made towards achieving the objectives set.

In accordance with this policy and ASX corporate governance principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 3 to 5 years as Director and senior executive positions become vacant and appropriately skilled candidates are available. Representation of female employees in the organisation workforce is as follows:

	Actual at 31 December 2013		Empire Group Objective		Progress towards meeting objective	
	Number	Percentage	Number	Percentage	Number	Percentage
Whole organisation	13	22%	15	25%	3	87%
Senior Executive positions	3	30%	4	40%	-	-
Board	-	-	1	25%	-	-

A copy of the Company's diversity policy has been posted on the Company's website.

## Corporate Governance Statement

### Policy on dealing in Company securities

The Company has adopted a policy on how Directors, key management personnel, contractors and all other employees can deal in the securities of the Company.

This policy aims to ensure that the reputation of the Company is not adversely impacted by perceptions of trading in the Company's securities at inappropriate times or in an inappropriate manner. In addition to the specific prohibition on insider trading Directors and all other employees must also not deal in the Company's securities during the following closed periods, being the four week period before or 48 hours after:

- a. the release of the Empire Group's annual results to the ASX
- b. the release of the Empire Group's half-year results to the ASX
- c. the release of the Empire Group's quarterly cashflow and activities reports to the ASX
- d. the annual general meeting
- e. such other periods as advised by the Board of Directors or Chief Executive Officer (such as prior to ASX being advised of a significant matter or event)

Requests to trade during the closed periods may be considered in exceptional circumstances. At all other times Directors, key management personnel and all other employees are not permitted to buy or sell securities in the Company without first obtaining written consent from the Chairman. When the Chairman trades Company securities written approval has to be obtained from an independent Director.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

A copy of the Company's securities trading policy was lodged with the ASX Company Announcements office on 23 December 2010 and is also posted on the Company's website.

### PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

#### Audit Committee

The audit committee comprises of the full Board of Directors.

The committee met twice during the year under review.

The committee has adopted a formal charter, a copy of the formal charter is posted on the Company's website. The responsibilities of the Audit Committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- review and approval of the consolidated entity's accounting policies and procedures;
- reviewing external audit plans;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The audit committee has received confirmation in writing from the Chief Executive Officer and Chief Financial Officer that:

The Empire Group's financial statements for the financial year ended 31 December 2013 present a true and fair view in all material respects of the Empire Group's financial position and operational results and are in accordance with relevant accounting standards.

The structure of the audit committee does not comply with recommendation 4.2 in that it does not consist only of non-executive independent Directors and it is chaired by an independent chair who is not chair of the board.

The Board considers that the Company and the Board are not of sufficient size to warrant the establishment of a separate audit committee.

## **Corporate Governance Statement**

### **External auditors**

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The current auditors, Nexia Court & Co., were appointed in 1992. The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years. Nexia Court & Co. confirms that they conform with the requirements of the statement.

Nexia Court & Co. are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

### **PRINCIPLE 5 – MAKING TIMELY AND BALANCED DISCLOSURE**

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Companies should promote timely and balanced disclosure of the matters concerning the Company.

The Company has a written policy on information disclosure that focuses on ensuring compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.

The Company Secretary in consultation with the Chairman, is responsible for communications with the ASX. The Company Secretary is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

A copy of the Company's policy of continuous disclosure is posted on the Company's website.

### **PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS**

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Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

#### **Communication with shareholders**

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company has adopted a shareholder communication policy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Empire Group; and
- encouraging and facilitating shareholder participation in general meetings.

The Company achieves this through the following avenues:

#### **Regular mailings**

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Empire Group.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

#### **General meetings**

All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

A copy of the Company's shareholder communications policy is posted on the Company's website.

The Company also posts corporate information in the Investor Section of its Company website at [www.empireenergygroup.net](http://www.empireenergygroup.net)

## Corporate Governance Statement

### PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assesses the Company's performance in light of risks identified by such reports.

Management are also required to design implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The chief executive officer and chief financial officer have stated in writing to the board that:

- The Empire Group's financial reports present a true and fair view in all material respects of the Empire Group's financial position and operating results and are in accordance with relevant accounting standards.
- The integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating efficiently in all material respects.

The board requires this declaration to be made bi-annually.

### PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that the relationship to performance is clear.

The Board has established a remuneration committee. The committee comprised the following members during the year:

Mr D Sutton – Independent Non-Executive  
Mr K Torpey – Independent Non-Executive

Mr D Sutton is the Chairman of the remuneration committee.

The Company does not comply with recommendation 8.2 as the remuneration committee does not have at least three members. The Board considers that the function of the remuneration committee is not jeopardised by its current structure. The Board considers that the size of the Company does not warrant the appointment of additional members to the Remuneration Committee.

The committee has adopted a formal charter, a copy of the formal charter has been posted on the Company's website. The main responsibilities of the Remuneration Committee include:

- review and approve the Company's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.

The committee met twice during the year and the Committee Members attendance record is disclosed in the table of Director's Meetings included in the Directors' Report at page 31.

## **Corporate Governance Statement**

### **Executive Directors and Executive remuneration**

The remuneration committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Option Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

### **Non-executive directors**

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Non-Executive Directors have the right to participate in the Company's Share Option Plan.

Further information on directors and executive remuneration is included in the audited remuneration report which forms part of the directors' report.



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Note	Year ended December 2013 US\$	Year ended December 2012 US\$
<b>Revenue from continuing operations</b>	5	25,886,370	26,643,095
Other income	6	681,667	1,047,433
		<u>26,568,037</u>	<u>27,690,528</u>
<b>Expenses</b>			
Oil and gas production		(11,328,681)	(10,761,387)
Exploration assets written off		(2,023,255)	(1,029,897)
Leasing expiration expenses	8	(152,379)	(1,026,978)
Impairment of assets	8	(33,470)	(171,728)
Depreciation, depletion and amortisation	8	(5,028,214)	(4,750,416)
General and administration		(4,470,650)	(4,479,136)
Finance costs	7	(2,232,176)	(2,735,596)
Finance costs (non-cash)	7	(1,245,018)	(4,534,580)
Other Expenses		(28,265)	(226,210)
		<u>25,929</u>	<u>(2,025,400)</u>
<b>Profit/(loss) before income tax expense from continuing operations</b>			
		25,929	(2,025,400)
Income tax (expense)/benefit	9a	(1,064,704)	1,821,823
		<u>(1,038,775)</u>	<u>(203,577)</u>
<b>(Loss)/profit after income tax (expense)/benefit from continuing operations</b>			
		(1,038,775)	(203,577)
<b>Other comprehensive income</b>			
(Loss) /gain on the revaluation of available-for-sale assets		(220,121)	48,490
Exchange differences on translation of foreign operations		(102,889)	61,312
Net change in the fair value of cash flow hedges, net of tax		(1,224,423)	(1,424,955)
		<u>(1,547,433)</u>	<u>(1,315,153)</u>
<b>Other comprehensive income for the year, net of tax</b>			
		(1,547,433)	(1,315,153)
<b>Total comprehensive income for the year</b>		<u>(2,586,208)</u>	<u>(1,518,730)</u>
(Loss)/profit for the year is attributable to:			
Equity holders of Empire Energy Group Limited		(1,118,831)	(220,723)
Non-controlling interests		80,056	17,146
		<u>(1,038,775)</u>	<u>(203,577)</u>
Total comprehensive income for the year is attributable to:			
Equity holders of Empire Energy Group Limited		(2,644,068)	(1,472,169)
Non-controlling interests		51,903	(46,561)
		<u>(2,592,165)</u>	<u>(1,518,730)</u>
		Cents per share	Cents per share
Basic earnings per share	29	(0.37)	(0.08)
Diluted earnings per share	29	(0.37)	(0.08)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****as at 31 December 2013**

	Note	As at December 2013 US\$	As at December 2012 US\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	28	2,322,720	6,189,192
Trade and other receivables	10	4,674,518	5,097,864
Prepayments	11	203,316	171,973
Inventories	12	995,610	805,646
Financial assets, including derivatives	13	2,327,334	3,267,501
Current income tax receivable		201,533	853,875
<b>TOTAL CURRENT ASSETS</b>		<b>10,725,031</b>	<b>16,386,051</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets, including derivatives	13	3,493,532	5,024,544
Oil and gas properties	14	96,763,108	98,018,856
Property, plant and equipment	14	874,252	939,758
Intangible assets	15	68,217	70,367
<b>TOTAL NON-CURRENT ASSETS</b>		<b>101,199,109</b>	<b>104,053,525</b>
<b>TOTAL ASSETS</b>		<b>111,924,140</b>	<b>120,439,576</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	5,746,774	6,415,637
Financial liabilities, including derivatives	17	542,633	248,575
Interest-bearing liabilities	18	41,099,354	48,924,343
Provisions	19	5,351	85,567
<b>TOTAL CURRENT LIABILITIES</b>		<b>47,394,112</b>	<b>55,674,122</b>
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities, including derivatives	17	-	525,953
Interest-bearing liabilities	18	62,607	40,191
Provisions	19	7,788,880	6,015,635
Deferred income tax liability	9(f)	7,316,000	7,070,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>15,167,487</b>	<b>13,651,779</b>
<b>TOTAL LIABILITIES</b>		<b>62,561,599</b>	<b>69,325,901</b>
<b>NET ASSETS</b>		<b>49,362,541</b>	<b>51,113,675</b>
<b>EQUITY</b>			
Contributed equity	20	73,683,238	73,325,555
Reserves	21	6,420,665	6,710,795
Accumulated losses		(30,741,362)	(30,576,059)
<b>Equity is attributable to:</b>			
Equity holders of Empire Energy Group Limited		49,362,541	49,460,291
Non-controlling interests		-	1,653,384
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>49,362,541</b>	<b>51,113,675</b>

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 31 December 2012	73,325,555	3,936,996	211,699	2,562,100	(30,576,059)	49,460,291	1,653,384	51,113,675
<b>Total Comprehensive income for year</b>								
Profit after income tax from continuing operations	-	-	-	-	(1,118,831)	(1,118,831)	80,056	(1,038,775)
Exchange differences on translation of foreign operations	-	-	(102,889)	-	(5,956)	(108,845)	-	(108,845)
Gain on the revaluation available-for-sale investments, net of tax	-	(220,121)	-	-	-	(220,121)	-	(220,121)
Net change in the fair value of cash flow hedges, net of tax	-	(1,196,270)	-	-	-	(1,196,270)	(28,153)	(1,224,423)
<b>Total comprehensive income for the year</b>	-	<b>(1,416,391)</b>	<b>(102,889)</b>	-	<b>(1,124,787)</b>	<b>(2,644,067)</b>	<b>51,903</b>	<b>(2,592,164)</b>
<b>Transactions with owners, recorded directly in equity</b>								
Issue of ordinary shares	372,520	-	-	-	-	372,520	-	372,520
Less: share issue transaction costs	(14,837)	-	-	-	-	(14,837)	-	(14,837)
Options lapsed in period, transferred to retained earnings	-	-	-	(9,744)	9,744	-	-	-
Options issued during the year – share-based payments	-	-	-	461,514	-	461,514	-	461,514
Warrants issued during the year	-	-	-	424,929	-	424,929	19,685	444,614
Dilution of non-controlling interest	-	-	-	-	-	-	-	-
Acquisition of non-controlling interest without a change in control	-	251,463	-	100,989	949,739	1,302,191	(1,724,972)	(422,781)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-
<b>Total transactions with owners</b>	<b>357,683</b>	<b>251,463</b>	-	<b>977,688</b>	<b>959,483</b>	<b>2,546,317</b>	<b>(1,705,287)</b>	<b>841,030</b>
<b>Balance at 31 December 2013</b>	<b>73,683,238</b>	<b>2,772,068</b>	<b>108,810</b>	<b>3,539,788</b>	<b>(30,741,363)</b>	<b>49,362,541</b>	-	<b>49,362,541</b>

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

Consolidated	Issued Capital	Fair Value Reserve	Foreign Currency Translation Reserve	Options Reserve	Accumulated Losses	Attributable to owners of equity parent	Non-Controlling Interests	Total Equity
Balance at 31 December 2011	71,195,874	5,249,754	150,387	3,021,425	(31,327,674)	48,289,766	1,736,764	50,026,530
<b>Total Comprehensive income for year</b>								
Profit after income tax from continuing operations	-	-	-	-	(220,723)	(220,723)	17,146	(203,577)
Exchange differences on translation of foreign operations	-	-	61,312	-	-	61,312	-	61,312
Gain on the revaluation available-for-sale investments, net of tax	-	48,490	-	-	-	48,490	-	48,490
Net change in the fair value of cash flow hedges, net of tax	-	(1,361,248)	-	-	-	(1,361,248)	(63,707)	(1,424,955)
<b>Total comprehensive income for the year</b>	-	<b>(1,312,758)</b>	<b>61,312</b>	-	<b>(220,723)</b>	<b>(1,472,169)</b>	<b>(46,561)</b>	<b>(1,518,730)</b>
<b>Transactions with owners, recorded directly in equity</b>								
Issue of ordinary shares	2,139,330	-	-	-	-	2,139,330	-	2,139,330
Less: share issue transaction costs	(9,649)	-	-	-	-	(9,649)	-	(9,649)
Options lapsed in period, transferred to retained earnings	-	-	-	(972,338)	972,338	-	-	-
Options issued during the year	-	-	-	513,013	-	513,013	-	513,013
Warrants issued during the year	-	-	-	-	-	-	-	-
Dilution of non-controlling interest	-	-	-	-	-	-	-	-
Distribution to non-controlling interests	-	-	-	-	-	-	(36,819)	(36,819)
<b>Total transactions with owners</b>	<b>2,129,681</b>	-	-	<b>(459,325)</b>	<b>972,338</b>	<b>2,642,694</b>	<b>(36,819)</b>	<b>2,605,875</b>
<b>Balance at 31 December 2012</b>	<b>73,325,555</b>	<b>3,936,996</b>	<b>211,699</b>	<b>2,562,100</b>	<b>(30,576,059)</b>	<b>49,460,291</b>	<b>1,653,384</b>	<b>51,113,675</b>

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	Note	Year ended 31 December 2013 US\$	Year ended 31 December 2012 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		26,868,135	27,427,882
Payments to suppliers and employees		(17,696,844)	(13,766,793)
Interest received		3,087	24,328
Interest paid		(2,218,897)	(2,774,130)
Income taxes received/(paid)		568,610	1,193,352
Net cash flows from operating activities	28(b)	7,524,091	12,104,639
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of oil and gas assets		-	105,000
Proceeds from sale of investments in equity		250,580	810,068
Payments for oil and gas assets		(2,100,482)	(3,588,626)
Payments for property, plant and equipment		(1,152,845)	(616,688)
Payments for investments in equities		(89,480)	(400,000)
Net cash flows from investing activities		(3,092,227)	(3,690,246)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from issuing of shares		(14,837)	2,129,681
Proceeds from interest bearing liabilities		-	1,725,500
Repayment of interest bearing liabilities		(7,731,600)	(10,523,054)
Finance lease payments		22,416	(13,151)
Distribution to non-controlling interests		(56,216)	(36,819)
Loan acquisition costs		(494,169)	-
Net cash flows from financing activities		(8,274,406)	(6,717,843)
Net increase in cash and cash equivalents		(3,842,542)	1,696,550
Cash and cash equivalents at beginning of financial year		6,189,192	4,448,495
Effect of exchange rate changes on cash and cash equivalents		(23,930)	44,147
<b>CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR</b>	28(a)	<u>2,322,720</u>	<u>6,189,192</u>

The above consolidated statements of cash flow should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### **Corporate information**

The financial report covers Empire Energy Group Limited and its controlled entities ("Empire Group"). Empire Group is a company limited by shares whose shares are publicly traded on the Australian Securities Exchange. The parent entity of the Empire Group is incorporated and domiciled in Australia with its core operations in the United States of America ("USA"). Separate financial statements for Empire Group as an individual entity are no longer presented as the consequence of a change to the *Corporations Act 2001*; limited financial information for Empire Group, as an individual entity, is included in Note 32.

The principal activities of the Empire Group during the financial year are described in the Directors' Report.

The financial report of the Empire Group for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of Directors on 28 March 2013.

##### **Basis of preparation**

The general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations, and the requirements of the *Corporations Act 2001*, as appropriate for for-profit orientated entities. The consolidated financial statements have been prepared on a cost basis, modified, where applicable, by the measurement at fair value of available-for-sale financial assets and derivative financial instruments.

##### **Statement of compliance**

The financial report complies with Australian Accounting Standards ('AASB's'). Compliance with AASBs ensures that the financial report, comprising the financial statements and accompanying notes, complies with International Financial Reporting Standards ('IFRS').

##### **Presentation currency**

Because of sustained international growth, the Empire Group's cash flows and economic returns are now principally denominated in US dollars ("US\$"). From 1 July 2011, Company changed the currency in which it presents its consolidated and parent Company financial statements from Australian dollars to US dollars.

##### **New, revised or amending Accounting Standards and Interpretations adopted**

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

##### **Early adoption of standards**

The Empire Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2013.

##### **Principles of Consolidation**

The consolidated financial statements comprise the financial statements of Empire Energy Group Limited and its controlled entities.

Controlled entities are all those entities over which the Empire Group has the power to govern the financial and operating policies. Controlled entities are consolidated from the date on which control is transferred to the Empire Group and cease to be consolidated from the date on which control is transferred out of the Empire Group.

Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost.

All intercompany transactions, balance, including unrealised profits arising from intercompany transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in the equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position. Losses incurred by the Empire Group are attributed to non-controlling interest in full, even if that results in a deficit balance.

#### ***Business combinations***

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Those oil and gas reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest; and over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Empire Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

#### ***Foreign Currency Translations***

The financial report is presented in United States Dollars (US\$) which is the functional currency for the majority of the entities within the Empire Group. The functional currency of Empire Energy Group Limited is in Australian Dollars.

#### ***Foreign currency transactions***

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to US dollars at the foreign exchange rate ruling at that date.

#### ***Foreign operations***

The assets and liabilities of entities that have a functional currency in A\$ are translated to US\$ at exchange rates at the reporting date. The revenue and expense of entities that have a functional currency in A\$ are translated to US dollars at exchange rates at the dates of the transaction. Foreign currency differences on translation are recognised directly in equity.

#### ***Revenue recognition***

##### ***Natural gas revenue***

Revenue from the sale of natural gas is recognised when natural gas has been delivered to a custody transfer point, persuasive evidence of a sales arrangement exists, the rights and responsibility of ownership pass to the purchaser upon delivery, collection of revenue from the sale is reasonably assured, and the sales price is fixed or determinable. Natural gas is sold by the Empire Group under contracts with terms ranging from one month up to the life of the well. Virtually all of the Empire Group contracts' pricing provisions are tied to a market index with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality of natural gas and prevailing supply and demand conditions, so that the price of the natural gas fluctuates to remain competitive with other available natural gas suppliers.

Because there are timing differences between the delivery of natural gas and the Empire Group's receipt of a delivery statement, the Empire Group has unbilled revenues. These revenues are accrued based upon volumetric data from the Empire Group's records and the Empire Group's estimates of the related transportation and compression fees, which are, in turn, based upon applicable product prices.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Oil revenue*

Revenue from the sale of oil is recognised when the significant risks and rewards of ownership have been transferred to the buyer and can be measured reliably, which is usually at the time of lifting, transferred into a vessel, pipe or other delivery mechanism.

#### *Well operations*

Well operations and pipeline income are recognised when persuasive evidence of an arrangement exists, services have been rendered, collection of revenues is reasonably assured and the sales price is fixed or determinable. The Empire Group is paid a monthly operating fee for each well it operates for outside owners. The fee covers monthly operating and accounting costs, insurance and other recurring costs. The Empire Group might also receive additional compensation for special nonrecurring activities, such as reworks and recompletions.

#### *Finance income*

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

#### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

#### **Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

#### **Inventories**

Inventories consists of crude oil, stated at the lower of cost to produce or market and other production supplies intended to be used in natural gas and crude oil operations.

#### **Financial Assets, including derivatives**

The Empire Group utilises oil and gas forward contracts to manage the exposure to price volatility. The Empire Group recognises its derivatives on the consolidated statement of financial performance at fair value at the end of each period. Changes in the fair value of the oil and gas forward contracts that are designated and meet the required criteria for a cash flow hedge are reported in consolidated comprehensive income.

Derivatives are classified as current or non-current depending on the expected period of realisation.

#### **Oil and gas properties**

Oil and gas properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting for gas producing activities. Costs to acquire mineral interests in gas properties, drill and equip exploratory wells that find proved reserves, and drill and equip development wells and related asset retirement costs are capitalised. Depletion is based on cost less estimated salvage value using the unit-of-production method. The process of estimating and evaluating gas reserves is complex, requiring significant decisions in the evaluation of geological, geophysical, engineering and economic data. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Major maintenance and repairs*

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Empire Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off.

##### *Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The capitalised value of a finance lease is also included within property, plant and equipment. Plant and equipment are depreciated over their estimated useful lives using the straight line method as follows:

Plant and equipment	December 2013 10-20%	December 2012 10-20%
---------------------	-------------------------	-------------------------

Assets are depreciated from the date of acquisition. Profits and losses on sales of property, plant and equipment are taken into account in determining the results for the year.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

##### *Recoverable amount of assets*

At each reporting date, the Empire Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Empire Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or Empire Groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

##### *Investments*

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Certain investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date.

##### *Intangible Assets*

Intangible assets consist of goodwill and software assets. Software assets are being amortised on a straight-line basis over 5 years.

##### *Interest-bearing liabilities*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Provisions – Employee Benefits*

Obligations for contributions to accumulation plans are recognised as an expense in the consolidated statements of comprehensive income as incurred.

Liabilities for employee benefits for wages, salaries, annual leave and represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Empire Group expects to pay as at the reporting date including related on-costs, such as, workers compensation insurance, superannuation and payroll tax.

#### *Asset Retirement Obligations*

Asset retirement obligations are recognised when the Empire Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The present value of the estimated asset retirement costs is capitalised as part of the carrying amount oil and gas properties. For the Empire Group, asset retirement obligations primarily relate to the plugging and abandonment of oil and gas-producing facilities.

The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements. The liability is discounted using the US subsidiaries weighted average cost of capital as an approximate for a market-based discount rate. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs, remaining lives of the wells, if regulations enact new plugging and abandonment requirements, or there is a change in the market-based discount rate. Changes in the estimated timing of decommissioning or decommissions cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas properties. The unwinding of the discount of the asset retirement obligation is included as a finance cost.

#### *Income tax*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### *Tax consolidation*

The Empire Group and its wholly-owned Australian resident entities are part of a tax-consolidated Empire Group. As a consequence, all members of the tax-consolidated Empire Group are taxed as a single entity from 1 July 2003. The head entity within the tax-consolidated Empire Group is Empire Energy Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Empire Group are recognised in the separate financial statements of the members of the tax-consolidated Empire Group using the 'separate taxpayer within Empire Group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated Empire Group and are recognised by the Empire Group as amounts payable/(receivable) to/from other entities in the tax-consolidated Empire Group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Empire Group as an equity contribution or distribution.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Empire Group recognises deferred tax assets arising from unused tax losses of the tax consolidated Empire Group to the extent that it is probable that future taxable profits of the tax consolidated Empire Group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### *Nature of tax funding arrangements and tax sharing arrangements*

The head entity, in conjunction with other members of the tax-consolidated Empire Group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated Empire Group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated Empire Group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

#### *Goods and Services Tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### *Share based payment transactions*

The Empire Group provides benefits to directors and senior executives of the Empire Group through the executive share option plan whereby eligible participants render services in exchange for options over shares.

#### *New Accounting Standards and Interpretations not yet adopted*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments, 2009-011 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase 1 of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured to amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal.

The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 January 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

#### *AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*

The amendments are applicable to annual reporting periods beginning on or after 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 January 2014 will not have a material impact on the consolidated entity.

#### ***New and Revised Standards that are effective for Annual Periods beginning on or after 1 January 2013***

##### *AASB 10 Consolidated Financial Statements*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity.

A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's return (e.g. Operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 January 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

##### *AASB 11 Joint Arrangements*

This standard is applicable to annual reporting periods on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the assets and obligations for accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 January 2013 will not have a material impact on the consolidated entity.

##### *AASB 12 Disclosure of Interests in Other Entities*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'. The adoption of this standard from 1 January 2013 will increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

##### *AASB 13 Fair Value Management and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 January 2013 should be minimal, although there will be increased disclosures where fair value is used

*AASB 127 Separate Financial Statements (Revised)*

*AASB 128 Investments in Associates and Joint Ventures (Reissued)*

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 January 2013 will not have a material impact on the consolidated entity.

*AASB 119 Employee Benefits (September 2011)*

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The adoption of the revised standard from 1 January 2013 will require increased disclosures by the consolidated entity.

*AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 January 2014 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

*AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 17 and AASB 128. The adoption of these amendments from 1 January 2013 will not have a material impact on the consolidated entity.

*AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 January 2013 will impact the consolidated entity's presentation of its statement of comprehensive income.

*AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

The amendments are applicable to annual reporting periods beginning on or after 1 July 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 January 2013 will increase the disclosures by the consolidated entity.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

### 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

The amendments are applicable to annual reporting periods beginning on or after 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements';

Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distribution to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 January 2013 will not have a material impact on the consolidated entity.

### 2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the Empire Group's consolidated financial statements, Management are required to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and recognised contingent liabilities at the end of the reporting period and amounts of revenues and expenses recognised during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

#### *Estimates and assumptions*

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are described in the following notes:

- Note 8 – Impairment expense
- Note 9 – Income tax
- Note 14 – Oil and gas properties
- Note 19 – Provisions for liabilities and charges
- Note 25 – Share based payments

#### *Judgments*

In the process of applying the Empire Group's accounting policies, the Directors have made the following judgments at apart from those involving estimates, which may have the most significant effect on the amounts recognised in the consolidated financial statements:

#### *Reserves base*

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the income statement. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production and other capital costs. The current NYMEX forward oil and gas price curves are used for price assumptions. The Empire Group uses suitably qualified persons to prepare annual evaluation of proven hydrocarbon reserves, compliant with US professional standards for petroleum engineers.

#### *Carrying value of oil and gas assets*

Oil and gas properties are depreciated using the units-of-production (UOP) method over proved developed and undeveloped reserves.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 2. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

The calculation of the UOP rate of depreciation, depletion and amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. Estimates of gas reserve quantities provide the basis for calculation of depletion, depreciation and amortisation and impairment, each of which represents a significant component of the consolidated financial statements.

These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions, and unforeseen operational issues

##### *Impairment indicators*

The fair value of oil and gas properties is determined with reference to estimates of recoverable quantities of reserves (as outlined above) to determine the estimated future cash flows. An impairment loss is recognised for the amount by which the asset or Empire Group of assets carrying value exceeds the present value of its future cash flows. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

##### *Asset retirement obligations*

Asset retirement costs will be incurred by the Empire Group at the end of the operating life of some of Empire Group's facilities and properties. The ultimate asset retirement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

##### *Share-based payments*

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

#### 3. GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The Empire Group's Statement of Financial Position reflects an excess of current liabilities over current assets of \$36,669,081. This is primarily due to the Board determining that debt facilities be classified as current liabilities as described in Note 18 under classification of borrowings.

In January 2013 the debt facilities were extended for a further three years. The Company has decided to maintain the debt facility as a current liability.

Due to the liquidity of operating assets, the Board also determined that the USA operating assets could be classified as current assets.

#### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Empire Group's principal financial instruments, other than derivatives comprise bank loans, available for sale financial assets, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Empire Group's operations. The Empire Group has various other financial assets and liabilities such as trade receivables and payables, which arise from its operations. The Empire Group also enters derivative transactions, principally interest rate swaps and commodity hedges.

The board has overall responsibility for the determination of the Empire Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Empire Group's finance function. The board receives monthly reports through which it reviews the effectiveness of the processes put in place and appropriateness of the objectives and policies it sets.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Empire Group's competitiveness and flexibility.

The Empire Group is exposed to risks that arise from its use of financial instruments. The main risks arising from the Empire Group's financial instruments are interest rate risk, commodity price risk, liquidity risk, equity risk, and credit risk. This note describes the Empire Group's objectives, policies and processes for managing those risks and methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Empire Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Further details regarding these policies are set out below:

##### (A) MARKET RISK

###### (i) *Foreign Exchange Risk*

The Empire Group's core operations are located in the United States where both revenues and expenditures are recorded. The Statement of Financial Position can be affected by movement in the US\$/A\$ exchange rates upon translation of the A\$ operations into the US\$ presentation currency.

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The Empire Group seeks to mitigate the effect of its foreign currency exposure by borrowing in US\$ for US operations and maintaining a minimum cash balance in Australia.

Excluding presentation translation adjustments, the Empire Group's exposure to foreign exchange risk at the reporting date is limited to loans and investments between the Parent entity and the US subsidiaries.

###### (ii) *Commodity Price Risk*

The Empire Group's revenues and cash flows are exposed to commodity price fluctuations, in particular oil and gas prices. The Empire Group enters forward commodity hedges to manage its exposure to falling spot oil and gas prices. To mitigate a portion of the exposure to adverse market changes, the Empire Group's commodity hedging programs utilise financial instruments based on regional benchmarks including NYMEX WTI for oil and NYMEX Natural Gas Henry Hub for gas.

The Empire Group enters into derivative instruments for the Empire Group's production to protect against price declines in future periods while retaining some of the benefits of price increases. While these derivatives are structured to reduce exposure to changes in price associated with the derivative commodity, they also limit benefits the Empire Group might otherwise have received from price changes in the physical market. The Empire Group believes the derivative instruments in place continue to be effective in achieving the risk management objectives for which they were intended.

The Empire Group's policy is to maintain a balance between spot and hedged sales, with not more than 75% of production being hedged at any point in time. For the year ended 31 December 2013 the Empire Group hedged approximately 72% of its oil (2012: 72%) and 75% of its total gas production (2012: 83%).

The Empire Group has approximately 80,000 thousand cubic feet (mcf) of monthly natural gas production and 12,000 barrels of oil production hedged at amounts ranging from \$4.37 to \$6.30/mcf for natural gas expiring in January 2014 through December 2018 and \$85.23 to \$90 per barrel for oil expiring in January 2014 through December 2017.

###### (iii) *Interest rate risk*

The Empire Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk. The Empire Group's exposure to interest rate risk at 31 December 2013 is set out in the following tables:

The Empire Group's exposure to the risk of changes in market interest rates relates primarily to the Empire Group's long-term debt obligations with a floating interest rate in the US. The Empire Group manages its interest cost using a mix of fixed and variable rate debt.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The Empire Group's policy is to continually review the portion of its US\$ borrowings that are either at floating or fixed rates of interest. To manage this mix in a cost-efficient manner, the Empire Group previously entered into interest rate swaps, in which Empire agrees to exchange, at specified intervals, the difference between fixed and variable interest rate amounts calculated by reference to an agreed upon notional principal amount. These swaps were designated to hedge underlying debt obligations. There are no interest rate swaps at 31 December 2013.

The Empire Group monitors forecasts and actual cash flows and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

	%	Floating Interest Rate	Fixed Interest 1 Year or Less	Fixed Interest Maturing in Over 1 to 5 Years	Non-Interest Bearing	Total
<b>31 December 2013</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	1.86	2,322,720	-	-	-	2,322,720
Trade and other receivables		-	-	-	4,674,518	4,674,518
Financial assets		-	-	-	5,820,866	5,820,866
		2,322,720	-	-	10,495,384	12,818,104
<b>Financial Liabilities</b>						
Trade & other payables		-	-	-	5,746,774	5,746,774
Financial liabilities, including derivatives		-	-	-	542,633	542,633
Interest-bearing liabilities	4.00	-	41,099,354	62,607	-	41,161,961
		-	41,099,354	62,607	6,289,407	47,451,368
<b>31 December 2012</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	2.37%	6,189,192	-	-	-	6,189,192
Trade and other receivables		-	-	-	5,097,864	5,097,864
Financial assets		-	-	-	8,292,045	8,292,045
		6,189,192	-	-	13,389,909	19,579,101
<b>Financial Liabilities</b>						
Trade & other payables		-	-	-	6,415,637	6,415,637
Financial liabilities, including derivatives		-	-	-	774,528	774,528
Interest-bearing liabilities	4.26%	-	48,924,343	40,191	-	48,964,534
		-	48,924,343	40,191	7,190,165	56,154,699

#### (iv) Empire Group Sensitivity

Based on the financial instruments held at 31 December 2013 had the WTI NYMEX and Henry Hub prices increase/decreased by 10% and 10% respectively, with all other variables held constant, the Empire Group's post-tax profit for the year would not change due to the extent of effective hedging of oil and gas production. Equity would not have changed under either scenario.

The directors do not expect any reduction in interest rates during 2014. Should interest rates increase by 1% the impact on post-tax profit would be a decrease of approximately US\$410,000.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### (B) CREDIT RISK

Credit risk is the risk that the other party to the financial instrument will fail to discharge their financial obligation in respect of that instrument resulting in the Empire Group incurring a financial loss. The Empire Group's exposure to credit risk arises from potential default of the counter party with the maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Empire Group.

The Empire Group trades only with recognised, credit worthy third parties. In the US, trade receivables, (balances with oil and gas purchases) have not exposed the Empire Group to any bad debt to date. All derivatives are with the same counterparty.

In the US, all of the purchasers that the Empire Group's operators choose to deal with are major oil companies.

Trade and other receivable balances are monitored on an ongoing basis with the Empire Group's exposure to bad debts minimal.

The maximum exposure to credit risk at balance date is as follows:

	2013 US\$	2012 US\$
Trade, other receivables, and derivatives	9,638,786	12,262,264

The maximum exposure to credit risk at balance by country is as follows:

	2013 US\$	2012 US\$
Australia	-	132,608
United States of America	9,638,786	12,129,656

##### (C) LIQUIDITY RISK

Liquidity risk is the inability to access funds, both anticipated and unforeseen, which may lead to the Empire Group being unable to meet its obligations in an orderly manner as they arise.

The Empire Group's liquidity position is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost-effective manner. The Empire Group is primarily funded through on-going cash flow, debt funding and equity capital raisings, as and when required.

Funding is in place with reputable financial institutions in the US and Australia. The borrowing base is re-determined and reviewed once a year. Bank compliance reporting is undertaken quarterly and adherence to covenants checked regularly. Management also regularly monitors actual and forecast cash flows to manage liquidity risk.

Maturity Analysis	Fair Value US\$	Carrying Amount US\$	Contractual Cash flows US\$	1 year US\$	1-5 years US\$
<b>31 December 2013</b>					
<b>Non Derivatives</b>					
<b>Current</b>					
Trade and other payables	5,746,751	5,746,751	5,746,751	5,746,774	-
Interest bearing liabilities	41,099,354	41,099,354	41,099,354	41,099,354	-
<b>Non-current</b>					
Interest bearing liabilities	62,607	62,607	62,607	-	62,607
<b>Derivatives</b>					
Cashflow hedge asset	(5,105,716)	(5,105,716)	(5,105,716)	(2,327,334)	-
Cashflow hedge liability	542,633	542,633	542,633	542,633	-
Interest rate swap liability	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maturity Analysis	Fair Value US\$	Carrying Amount US\$	Contractual Cash flows US\$	1 year US\$	1-5 years US\$
<b>31 December 2012</b>					
<b>Non Derivatives</b>					
<b>Current</b>					
Trade and other payables	6,415,637	6,415,637	6,415,637	6,415,637	-
Interest bearing liabilities	49,557,474	48,924,343	49,557,474	49,557,474	-
<b>Non-current</b>					
Interest bearing liabilities	40,191	40,191	40,191	-	40,191
<b>Derivatives</b>					
Cashflow hedge asset	(7,189,553)	(7,189,553)	(7,189,553)	(3,267,501)	-
Cashflow hedge liability	774,528	774,528	774,528	248,575	525,953
Interest rate swap liability	-	-	-	-	-

#### (D) EQUITY RISK

The Empire Group is exposed to equity securities price risk arising from investments held by the Empire Group which are classified as available for sale assets. Investments in equity securities are managed by the Board

The Empire Group relies on equity markets to raise capital for its exploration and development activities, and is thus exposed to equity market volatility.

In addition, the Empire Group undertakes limited investment in listed and seed capital opportunities. Unlisted investments are held at cost less impairment as no market valuation is available.

Equity price risk arises from investments in equity securities and Empire Energy Group Limited's issued capital.

The Company's equity risk is considered minimal and as such no sensitivity analysis has been completed.

#### Fair Value of Financial Assets and Liabilities

The fair value of all monetary financial assets and liabilities of Empire Energy Group Limited approximate their carrying value there were no off-balance financial assets and liabilities at year end.

#### Fair value of financial instruments

The Empire Group is required to classify financial instruments, measured at fair value, using a three level hierarchy, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The fair value of financial instruments classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

<b>Consolidated 31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Available-for-sale – equity securities	225,669	-	-	225,669
Unlisted available-for-sale equities	-	-	645,521	645,521
Cash flow hedge	-	5,105,716	-	5,105,716
<b>Total assets</b>	<b>225,669</b>	<b>5,105,716</b>	<b>645,521</b>	<b>5,976,906</b>
<b>Liabilities</b>				
Cash flow hedge and interest rate swap	-	542,633	-	542,633
<b>Total liabilities</b>	<b>-</b>	<b>542,633</b>	<b>-</b>	<b>542,633</b>

<b>Consolidated 31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Available-for-sale – equity securities	595,038	-	-	595,038
Unlisted available-for-sale equities	-	-	556,041	556,041
Cash flow hedge	-	7,297,007	-	7,297,007
<b>Total assets</b>	<b>595,038</b>	<b>7,297,007</b>	<b>556,041</b>	<b>8,448,086</b>
<b>Liabilities</b>				
Cash flow hedge and interest rate swap	-	774,528	-	774,528
<b>Total liabilities</b>	<b>-</b>	<b>774,528</b>	<b>-</b>	<b>774,528</b>

There were no transfers between levels during the financial year.

#### Capital Risk Management

The Company considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Company's primary objective is to maintain a sufficient funding base to enable the Company to meet its working capital and strategic investment needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt the Company considers not only its short-term position but also its long-term operational and strategic objectives.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 5 REVENUE

	2013 US\$	2012 US\$
Revenue from oil and gas sales	24,976,934	26,271,695
Revenue from drilling operations	-	-
Revenue from well operations	909,436	371,400
	25,886,370	26,643,095

#### 6 OTHER INCOME

Gain on sale of investment	206,274	594,483
Interest income	3,779	25,523
Rental income	8,912	5,440
Other income	462,702	421,987
	681,667	1,047,433

#### 7 FINANCE COSTS

Interest paid/payable on financial liabilities	2,216,758	2,768,186
Interest paid/payable to related parties	-	7,580
Accretion of asset retirement obligation (note 19)	404,512	701,093
Unwind of discount on debt	555,029	1,993,380
Unwind of overriding royalty interest	300,895	1,799,937
Total finance costs	3,477,194	7,270,176

#### 8 EXPENSES

Profit/(loss) before income tax includes the following specific expenses:

##### *Depreciation, depletion and amortisation*

Oil & Gas properties and plant & equipment (note 14)	5,026,064	4,737,475
Intangible assets (note 15)	2,150	12,941
	5,028,214	4,750,416

##### *Employee benefits expense*

Defined contribution superannuation expense	37,377	53,180
Other employee expenses	4,140,429	4,060,413
Total employee benefits expense	4,177,806	4,113,593

##### *Impairment expense*

Impairment of available-for-sale financial assets	33,470	171,728
Impairment of property, plant & equipment	-	-
Total impairment expense	33,470	171,728

Loss on disposal of property, plant & equipment	28,265	197,337
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Leasing expiration expenses <sup>(a)</sup>	152,379	1,026,978
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#### (a) Leasing expiration expense

A charge of \$152,379 has been taken against the book value of undeveloped leases which have expired, or are to expire. The Company has an ongoing program to renew expiring leases, to take up options on expiring leases or acquire new leases if and when possible. The charge is a non-cash entry which has no effect on cash-flows.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 9 INCOME TAX

##### a. Income tax expense

	2013 US\$	2012 US\$
Current tax	143,646	191,051
Deferred tax	980,973	(586,360)
Adjustments for current tax of prior periods	(59,915)	(1,426,514)
Income tax expense/(benefit) attributable to continuing operations	1,064,704	(1,821,823)

Deferred income tax expense included in income tax expense comprises:

Decrease/(increase) in deferred tax assets (note 10(g))	-	-
Increase/(decrease) in deferred tax liabilities (note 10(f))	980,973	(586,360)
	980,973	(586,360)

##### b. Numerical reconciliation of income tax expense to prima facie tax payable

Profit /(Loss) before income tax	25,929	(2,025,400)
Tax at the Australian tax rate of 30% (2012: 30%)	7,779	(607,620)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
- Income tax not assessable	-	-
- Non-deductible expenses	-	-
- Other deductible expenses	-	-
Difference in overseas tax rates	-	-
Tax (over)/underprovided in prior year	457,350	(1,426,514)
State taxes paid or payable	250	48,615
Withholding tax paid	136,617	142,436
Deferred tax asset in relation to tax losses and temporary differences not recognised	463,708	21,260
Income tax expense/(benefit)	1,064,704	(1,821,823)

##### c. Tax expense (income) relating to items of other comprehensive income

Cash flow hedges	9(h)	2,053,387	2,788,360
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##### d. Deferred tax assets not recognised relate to the following:

Tax losses	2,549,383	2,340,627
Capital losses	141,410	146,840
	2,690,793	2,487,467

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 9 INCOME TAX (Continued)

The potential benefit of the deferred tax asset attributable to tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised; or
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the asset.

#### e. Dividend Franking Account

There are no franking account credits available as at 31 December 2013.

#### f. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2013 US\$	2012 US\$
Cash flow hedges	2,053,387	2,788,360
Oil & Gas and Property, Plant & Equipment	6,619,573	5,719,942
	8,672,960	8,508,302
Set-off of deferred tax liabilities pursuant to set-off provisions (note g)	(1,356,960)	(1,438,302)
Net deferred tax liabilities	7,316,000	7,070,000

#### g. Deferred tax assets

The balance comprises temporary differences attributable to:

Tax losses carried forward	245,685	619,341
Accrued interest	-	92,271
Accrued asset retirement obligation	1,099,028	721,322
State taxes offset	-	-
Other	12,247	5,368
	1,356,960	1,438,302
Set-off of deferred tax assets pursuant to set-off provisions (note f)	(1,356,960)	(1,438,302)
Net deferred tax assets	-	-

#### h. Movements in temporary differences in the period:

The movements in the above temporary differences are all recognised in the Profit or Loss with the exception of the movement in the cash flow hedges. The movement is reconciled as follows:

Opening balance	2,788,360	2,742,331
Charged/(credited):		
- to profit or loss	-	-
- to other comprehensive income	(734,973)	46,029
Closing balance	2,053,387	2,788,360

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 10 TRADE AND OTHER RECEIVABLES

	2013 US\$	2012 US\$
<b>Current</b>		
Trade receivables	4,608,646	4,965,257
Other	65,872	132,607
	<u>4,674,518</u>	<u>5,097,864</u>

#### 11 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments	<u>203,316</u>	<u>171,973</u>
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#### 12 INVENTORIES

Crude oil and production supplies	<u>995,610</u>	<u>805,646</u>
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#### 13 FINANCIAL ASSETS, INCLUDING DERIVATIVES

##### Current

Oil and gas price forward contracts	<u>2,327,334</u>	<u>3,267,501</u>
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##### Non-current

Oil and gas price forward contracts	2,778,382	4,029,506
Shares – other corporations:		
• Listed available-for-sale equities (at fair value)	225,670	595,038
• Unlisted available-for-sale equities (at cost)	645,521	556,041
Less: accumulated impairment on unlisted equities	(156,041)	(156,041)
<b>Total Non-current</b>	<u>3,493,532</u>	<u>5,024,544</u>

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

Commodity hedge contracts outstanding are outlined below.

2013 NATURAL GAS - HENRY HUB - NYMEX - Swaps					2012 NATURAL GAS - HENRY HUB - NYMEX - Swaps				
Period	Swap Price	Premium	Product		Period	Swap Price	Premium	Product	
Jan 14 - Dec 14	6.15	\$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.15	\$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.15	\$Nil	238,372	mmbtu
Jan 14 - Dec 14	6.21	\$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.21	\$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.21	\$Nil	238,372	mmbtu
Jan 14 - Dec 14	6.15	\$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.15	\$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.15	\$Nil	238,372	mmbtu
Jan 14 - Dec 14	6.26	\$Nil	238,372	mmbtu	Jan 13 - Dec 13	6.26	\$Nil	255,179	mmbtu
					Jan 14 - Dec 14	6.26	\$Nil	238,372	mmbtu
Jan 14 - Dec 14	6.30	\$Nil	5,000	mmbtu	Jan 13 - Dec 13	6.30	\$Nil	76,000	mmbtu
					Jan 14 - Dec 14	6.30	\$Nil	5,000	mmbtu
Jan 14 - Dec 14	5.27	\$Nil	217,000	mmbtu	Jan 13 - Dec 13	5.08	\$Nil	247,000	mmbtu
Jan 15 - Dec 15	5.45	\$Nil	1,116,000	mmbtu	Jan 14 - Dec 14	5.27	\$Nil	217,000	mmbtu
					Jan 15 - Dec 15	5.45	\$Nil	1,116,000	mmbtu
Jan 14 - Dec 14	5.27	\$Nil	159,000	mmbtu	Jan 13 - Dec 13	5.08	\$Nil	55,000	mmbtu
Jan 15 - Dec 15	5.45	\$Nil	156,000	mmbtu	Jan 14 - Dec 14	5.27	\$Nil	159,000	mmbtu
					Jan 15 - Dec 15	5.45	\$Nil	156,000	mmbtu
Jan 16 - Dec 16	4.49	\$Nil	72,000	mmbtu	Jan 16 - Dec 16	4.49	\$Nil	72,000	mmbtu
Jan 16 - Dec 16	4.49	\$Nil	528,000	mmbtu	Jan 16 - Dec 16	4.49	\$Nil	528,000	mmbtu
Jan 16 - Dec 16	4.37	\$Nil	528,000	mmbtu	Jan 16 - Dec 16	4.37	\$Nil	528,000	mmbtu
Jan 17 - Dec 17	4.57	\$Nil	504,000	mmbtu	Jan 17 - Dec 17	4.57	\$Nil	504,000	mmbtu
Jan 18 - Dec 18	4.75	\$Nil	456,000	mmbtu	Jan 18 - Dec 18	4.75	\$Nil	456,000	mmbtu
2013 OIL - WTI - NYMEX					2012 OIL - WTI - NYMEX				
Jan 14 - Dec 14	90	\$Nil	105,120	BO	Jan 13 - Dec 13	90	\$Nil	113,160	BO
Jan 15 - Dec 15	90	\$Nil	98,160	BO	Jan 14 - Dec 14	90	\$Nil	105,120	BO
					Jan 15 - Dec 15	90	\$Nil	98,160	BO
Jan 16 - Dec 16	85.67	\$Nil	42,000	BO	Jan 16 - Dec 16	85.67	\$Nil	42,000	BO
Jan 17 - Dec 17	85.23	\$Nil	39,600	BO	Jan 17 - Dec 17	85.23	\$Nil	39,600	BO

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 14 OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT

	Note	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
<b>Cost in US\$</b>								
At 1 January 2013		106,126,081	5,587,535	30,591	304,209	612,386	722,155	113,382,957
Additions		2,606,338	457,900	-	6,077	77,140	116,388	3,263,843
New asset retirement obligation		1,418,263	-	-	-	-	-	1,418,263
Write-off of asset retirement obligation		(49,530)	-	-	-	-	-	(49,530)
Reclassifications		986,887	(938,076)	-	-	-	-	48,811
Disposals		-	-	-	-	(4,339)	(77,678)	(82,017)
Expiration costs		-	(152,379)	-	-	-	-	(152,379)
Write-off of exploration expense		-	(729,150)	-	-	-	-	(729,150)
Write-off to prepayments/inventory		-	-	-	-	51,165	(51,165)	-
At 31 December 2013		111,088,039	4,225,830	30,591	310,286	736,352	709,700	117,100,798
<b>Accumulated Depreciation in US\$</b>								
At 1 January 2013		(13,694,760)	-	-	(23,885)	(343,131)	(364,093)	(14,425,869)
Depreciation and depletion		(4,856,000)	-	-	(11,946)	(119,090)	(39,028)	(5,026,064)
Disposals		-	-	-	-	-	-	-
Impairment		-	-	-	-	-	-	-
At 31 December 2013		(18,550,760)	-	-	(35,831)	(462,221)	(403,121)	(19,451,933)
<b>Opening written down value</b>		<b>92,431,321</b>	<b>5,587,535</b>	<b>30,591</b>	<b>280,324</b>	<b>274,131</b>	<b>358,062</b>	<b>98,957,088</b>
<b>Impact of foreign currency adjustments</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,578)</b>	<b>(9,927)</b>	<b>(11,505)</b>
<b>Closing written down value</b>		<b>92,537,279</b>	<b>4,225,830</b>	<b>30,591</b>	<b>274,455</b>	<b>272,553</b>	<b>296,652</b>	<b>97,637,360</b>



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 14 OIL AND GAS PROPERTIES AND PROPERTY PLANT & EQUIPMENT (continued)

	Note	Oil & Gas – Proved and producing	Oil & Gas – Unproved & not producing	Land	Buildings	Equipment	Motor Vehicles	Total
<b>Cost in US\$</b>								
At 1 January 2012		104,840,268	3,612,210	2,056,355	304,209	1,374,810	721,391	112,909,243
Additions		2,580,916	1,523,833	-	-	130,048	764	4,235,561
New asset retirement obligation		427,936	-	-	-	-	-	427,936
Write-off of asset retirement obligation		(57,689)	-	-	-	-	-	(57,689)
Reclassifications		1,063,550	1,675,609	(2,025,764)	-	(713,395)	-	-
Disposals		(3,079,055)	-	-	-	(141,055)	-	(3,220,110)
Expiration costs		-	(1,026,978)	-	-	-	-	(1,026,978)
Write-off of exploration expense		-	(197,139)	-	-	-	-	(197,139)
Write-off to prepayments/inventory		350,155	-	-	-	(38,022)	-	312,133
At 31 December 2012		106,126,081	5,587,535	30,591	304,209	612,386	722,155	113,382,957
<b>Accumulated Depreciation in US\$</b>								
At 1 January 2012		(11,991,992)	-	-	(16,181)	(372,450)	(225,943)	(12,606,566)
Depreciation and depletion		(4,479,995)	-	-	(7,704)	(111,625)	(138,150)	(4,737,475)
Disposals		2,777,227	-	-	-	140,944	-	2,918,171
Impairment		-	-	-	-	-	-	-
At 31 December 2012		(13,694,760)	-	-	(23,885)	(343,131)	(364,093)	(14,425,869)
<b>Opening written down value</b>		<b>92,848,276</b>	<b>3,612,210</b>	<b>2,056,355</b>	<b>288,028</b>	<b>1,002,361</b>	<b>495,448</b>	<b>100,302,677</b>
<b>Impact of foreign currency adjustments</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>302</b>	<b>1,224</b>	<b>1,526</b>
<b>Closing written down value</b>		<b>92,431,321</b>	<b>5,587,535</b>	<b>30,591</b>	<b>280,324</b>	<b>269,557</b>	<b>359,286</b>	<b>98,958,614</b>

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 15 INTANGIBLE ASSETS

	2013 US\$	2012 US\$
Goodwill	68,217	68,217
Other intangible asset	-	2,150
	68,217	70,367
<b>Movement in Other Intangible assets</b>		
Carrying value at beginning of financial year	2,150	15,091
Transfer to debt	-	-
Amortisation	(2,150)	(12,941)
Carrying value end of financial year	-	2,150

#### 16 TRADE AND OTHER PAYABLES

##### Current

Trade creditors	5,677,120	6,076,018
Other creditors	69,654	339,619
	5,746,774	6,415,637

#### 17 FINANCIAL LIABILITIES, INCLUDING DERIVATIVE

##### Current

Oil and gas forward price contracts	542,633	248,575
	542,633	248,575

##### Non-current

Oil and gas forward price contracts	-	525,953
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#### 18 INTEREST-BEARING LIABILITIES

##### Current

Finance lease liability	99,273	99,447
Bank loan -secured	41,000,081	48,783,724
Other loans	-	-
Other loans – related party	-	41,172
	41,099,354	48,924,343

##### Non-current

Finance lease liability	62,607	40,191
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In February 2008, the Empire Group entered into a Credit Facility totalling \$150,000,000 under the following terms:

A \$50,000,000 revolving line-of-credit facility (Revolver) used to refinance existing debt and to undertake future acquisitions; the Revolver is subject to a borrowing base consistent with normal and customary oil and gas lending practices of the bank. The borrowing base limit at the time of the replacement was \$3,000,000 and is redetermined from time to time in accordance with the Revolver. Interest accrues on the outstanding borrowings at rate options selected by the Empire Group and based on the prime lending rate (3.25% at 31 December 2013 and 2012) or the London InterBank Offered Rate (LIBOR) (0.2155% at 31 December 2013 and 0.2535% at 31 December 2012) rate plus 2.5%. At 31 December 2013 and 2012, the Empire Group's rate option was LIBOR. The borrowing base availability changes with operations and opportunities.

A \$100,000,000 acquisition and development term credit facility (Term Facility) was used to refinance an existing facility, undertake acquisitions and support capital expenditure under an agreed development plan for oil and gas properties and services companies in the United States. Drawdown on the Term Facility is based on predefined benchmarks and drawn down under specific tranches.

This Credit Facility matured in February 2013 and was subsequently extended for a further three years maturing February 2016.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 18 INTEREST-BEARING LIABILITIES (Continued)

Loans under the facilities are secured by the assets of the Empire Group. Under terms of the facilities, the Empire Group is required to maintain financial ratios customary for the oil and gas industry. Beginning in March 2008, the Empire Group started to repay the facilities monthly to the extent of an applicable percentage of net operating cash flow, and capital transactions. Principal payments made in 2013 and 2012 were \$7,699,000 and \$10,418,000, respectively. The Revolver and Term loans are guaranteed by Empire Energy Group Limited. The Empire Group has exceeded the minimum cumulative principal payment obligation through the maturity date of the credit facilities.

In 2013, in connection with the Revolver and Term Facility, the bank received 16,252 of non-diluting warrants (\$0.01) equivalent to 10% of the issued capital of the Company (2012: 33,145). In addition, the bank also receives a 3% overriding royalty interest in the acquired properties of the Company.

The discount on the debt is being amortized to interest expense over the term of three years. The unamortized discount on the debt is approximately \$279,000 at December 2013. Additional interest expense of \$662,000 for the year ended December 31, 2013 is related to the amortization of the discount on debt.

In conjunction with the debt financing by the bank in 2010, Empire Energy Group Limited issued options on 500 million shares (33,333,333 options following a share consolidation). These options were independently valued at \$1,687,000. The recorded value of the options of \$1,687,000 was expensed over the life of the loan facility.

A summary of period end debt is as follows:

	2013 US\$	2012 US\$
Term		
Tranche 1	6,181,553	6,181,553
Tranche 3	19,585,871	19,748,692
Tranche 4	12,950,814	20,486,610
Revolver	3,000,000	3,000,000
Sub-Total	41,718,238	49,416,855
Less – Discount on debt:	(718,157)	(633,131)
Total debt	41,000,081	48,783,724

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 18 INTEREST-BEARING LIABILITIES (Continued)

##### CLASSIFICATION OF BORROWINGS

These accounts are presented on the basis that all debt has been classified as current liabilities. This treatment is as a result of a strict application of the relevant provisions of AASB 101 *Presentation of financial statements* ("AASB 101"). This accounting standard requires the Empire Group to classify liabilities as current if the Empire Group does not have an unconditional right to defer payment for twelve months at period end. However, the expected repayment of the borrowings is not for complete repayment within the twelve month period. In January 2013 the Company extended the Facility for a further 3 years through to 28 February 2016.

Under the terms of the Loan Facility ("Facility"), Empire Energy allocates 90% of monthly free cash flow to repay principle outstanding.

The expected loan repayments over the next 12 months comprise:

- Repayment of 90% of any monthly free cashflows

As at 31 December 2013 and during the year the loan covenants were in compliance.

#### 19 PROVISIONS

##### Current

Employee entitlements

##### Non-current

Asset retirement obligations

	2013 US\$	2012 US\$
Employee entitlements	5,351	85,567
Asset retirement obligations	7,788,880	6,015,635

##### Movement in Asset Retirement Obligation

Balance at beginning of the period	6,015,635	4,944,295
Additions for the period	1,418,263	427,936
Write-off accrued plugging costs	(49,530)	(57,689)
Accretion expense for the period, included in finance costs	404,512	701,093
Balance end of the period	7,788,880	6,015,635

##### Asset Retirement Obligation

The Empire Group makes full provision for the future costs of decommissioning oil and gas production facilities and pipelines on a discounted basis on the installation or acquisition of those facilities.

The provision represents the present value of decommissioning costs which are expected to be incurred up to 2050. The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those based on reserve estimates, external estimates as to the cost to plug and abandon the wells in the future, and regulatory requirements. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works. Furthermore, the timing of decommissioning is likely to depend on when the assets cease to produce at economically viable rates. This in turn will depend upon the future oil and gas prices, which are inherently uncertain.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 20 CONTRIBUTED EQUITY

##### a) Shares

##### Issued Capital

Balance at beginning of period

2013  
US\$

2012  
US\$

73,325,555

71,195,874

##### Movement in ordinary share capital

- Issue of 6,666,666 fully paid ordinary share in June 2012 pursuant to the exercise of options at A\$0.15 expiring 22 June 2012

-

990,380

- Issue of 6,666,666 fully paid ordinary shares in December 2012 pursuant to the exercise of options at A\$0.165 expiring 22 December 2012

-

1,148,950

- Issue of 4,000,000 fully paid ordinary shares in September 2013 @ A\$0.10 as part consideration for the acquisition of Empire Energy USA.

372,520

-

Less costs associated with the share issues detailed above

(14,837)

(9,649)

Balance as at 31 December 2013

73,683,238

73,325,555

##### b) Shares

##### Movements in ordinary issued shares

Balance at beginning of period

No. of shares

No. of shares

304,863,682

291,530,350

##### Movement in ordinary share capital

- Issue of fully paid ordinary shares in June 2012 pursuant to the exercise of options @ A\$0.15 expiring 22 June 2012

-

6,666,666

- Issue of fully paid ordinary shares in December 2012 pursuant to the exercise of options @ A\$0.165 expiring 22 December 2012

-

6,666,666

- Issue of fully paid ordinary shares in September 2013 @ A\$0.10 as part consideration for the acquisition of Empire Energy USA

4,000,000

-

- Balance as at 31 December 2013

308,863,682

304,863,682

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 20 CONTRIBUTED EQUITY (Continued)

##### Share Options

##### Movements

##### Granted

During the financial year 6,500,000 executive options to acquire ordinary shares were granted pursuant to the terms of the Company's employee share option plan. Vesting of these options is subject to minimum period of employment conditions.

No options were granted in the period since the end of the financial year.

##### Exercise of Options

No options were exercised during the financial year or in the end of the financial year and up to the date of this report.

##### Expiry of Options

The following unlisted options were not exercised by their expiry date and as a consequence have lapsed:

- 66,666 unlisted options at \$A0.15 expiring 5 March 2013
- 3,500,000 unlisted options at \$A0.15 expiring 1 July 2013
- 1,650,000 unlisted options at \$A0.17 expiring 1 July 2013
- 1,650,000 unlisted options at \$A0.18 expiring 31 December 2013

Since the end of the financial year no further unlisted options had expired.

At balance date the Empire Group had on issue, the following securities:

##### Shares

- 308,863,682 listed fully paid ordinary shares – ASX Code: EEG

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. No dividends were paid or declared during the year, or since the year-end.

##### Options

At balance date the Company had 13,500,000 unissued shares under option. These options are exercisable on the following terms:

Number		Exercise Price (A\$)	Expiry Date
7,000,000	Executive options	\$0.35	31 December 2014
1,500,000	Executive options	\$0.18	31 December 2015
5,000,000	Executive options	\$0.17	31 December 2015
<u>13,500,000</u>			

##### Performance Rights

During the financial year the Company issued 2,500,000 Performance Rights over fully paid ordinary shares in the Company as part consideration for the buy back of the minority interest equity holder in Empire Energy USA LLC. The minority interest holder also received 4,000,000 fully paid ordinary shares in the issued capital of Empire Energy Group Limited. The Performance Rights are exercisable at no cost under the following events:

- Lifting of the current moratorium on oil and/or natural gas fracking in New York State;
- If the Company sells, transfers or assigns all or substantially all of its property interest Chautauqua and Cattaraugus Counties in the State of New York to an unaffiliated third party then the performance rights will vest in accordance with the following schedule:

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 20 CONTRIBUTED EQUITY (Continued)

<b>Fair Market Value of Consideration Received by the Company</b>	<b>Performance rights exercisable</b>
Less than \$25.0 million	0.0%
At least \$25.0 million but less than \$45.0 million	Percentage calculated by dividing Fair Market Value of Consideration received by the Company by \$45.0 million.
\$45.0 million or more	100.0%

- If the holder of the Performance Rights in any way disposes of more than 75% of the 4 million ordinary shares assigned as part of the minority interest buy back transaction prior to either the moratorium being terminated or a third party sale being consummated then the performance rights will be cancelled.

#### 21 RESERVES

##### Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale assets until the investment is derecognised and the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

##### Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

##### Option Reserve

The option reserve comprises the value of options issued but not exercised at balance date.

#### 22 CONTINGENT LIABILITIES

Empire Energy Group Limited has executed a Deed of Guarantee and indemnity in favour of Macquarie Bank Limited guaranteeing the obligations of each of Empire Energy USA LLC and its subsidiary Empire Energy E&P LLC pursuant to the Macquarie Bank Limited credit facility.

The Empire Group is involved in various legal proceedings arising out of the normal conduct of its business. In the opinion of management, the ultimate resolution of such matters will not have a material effect on the consolidated financial position or results of operations of the Empire Group.

The Empire Group is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Empire Group has established procedures for the ongoing evaluation of its operations, to identify potential environmental exposures and to comply with regulatory policies and procedures.

Environmental expenditures that relate to current operations are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessment and or clean-up is probable, and the costs can be reasonably estimated. The Empire Group maintains insurance that may cover in whole or in part certain environmental expenditures. At 31 December 2013, the Empire Group had no environmental contingencies requiring specific disclosure or accrual.

In 1986 Empire Energy Group Limited provided certain tax indemnities to an investor under agreements relating to research and development of Vitrokele Core Technology.

There have been no changes in contingent liabilities since the last annual reporting date.



## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 23 CONTINGENT ASSETS

The Company has a claim outstanding against the JV Partner for a 75% interest in the Carrolltown Prospect Gas Wells. The Company expects to receive ~US\$40,000 in compensation.

#### 24 COMMITMENTS FOR EXPENDITURE

##### Exploration and Mining Tenement Leases

In order to maintain current rights of tenure to exploration and mining tenements, the Company and the companies in the consolidated entity are required to outlay lease rentals and to meet the minimum expenditure requirements of the various Government Authorities. These obligations are subject to re-negotiation upon expiry of the relevant leases or when application for a mining licence is made. An expenditure commitment of \$8,800 exists at 31 December 2013.

##### i) Equipment and Operating Leases

Commitments in relation to equipment/motor vehicle leases contracted for at and subsequent to the reporting date but not recognised as liabilities:

	2013 US\$	2012 US\$
Not later than one year	300,543	274,082
Later than one year not later than two years	260,543	275,082
Later than two years not later than five years	319,723	351,082
More than five years	-	-
	880,809	900,246

The Company leased its corporate headquarters under a non-cancelable operating lease of monthly payments of approximately \$6,900 through February 2013 and \$7,200 through February 2017. Net rental expense approximated \$86,000, net of reimbursements, for the year ended 31 December 2013.

The Company leases trucks under an operating agreement. The term of the agreement begins upon the delivery of each truck and lasts for a period of up to 48 months. Lease payments in 2013 were approximately \$194,000.

The Empire Group has the option to acquire the leased assets at the agreed value on the expiry of the leases.

##### ii) Property Licence

The Company has entered into a cancellable licence agreement over the occupation of office premises. The leased assets were pledged as security over the lease commitment.

The term of the occupancy licence was for a term of 59 months and concluded on 30 June 2011. Since expiry of the occupancy licence the Company has occupied the premises on a month to month basis. Terms on a new licence agreement are being negotiated.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 25 SHARE BASED PAYMENTS

##### a) Employee Share Option Plan 2010

A new executive share option plan was approved by shareholders at the annual general meeting of members held on 30 November 2010. This plan replaces the previous executive option plan approved by shareholders on 18 May 2000. Persons eligible to participate include executive officers of the Company or a subsidiary, including a director holding salaried employment or office in the Company or subsidiary.

Options are granted under the plan for no consideration. The vesting date of options granted under the plan is subject to minimum term of employment conditions.

Options granted under the plan carry no dividend or voting rights.

The exercise price of options is based on a minimum of the weighted average market price of shares sold in the ordinary course of trading on the ASX during the 5 trading days ending on the date the option is granted multiplied by 0.8. each option entitles the holder to subscribe for 1 unissued share.

Consolidated – 31 December 2013

During the financial year the following options were granted pursuant to the Employee Share Option Plan 2010.

No. of Options	Grant Date	Vesting Date	Exercise Date A\$	Expiry Date
1,500,000	28 June 2013	28 June 2015	\$0.18	31 December 2015
5,000,000	28 June 2013	28 June 2015	\$0.17	31 December 2015
6,500,000				

Consolidated – 31 December 2012

During the financial year the following options were granted pursuant to the Employee Share Option Plan 2010.

No. of Options	Grant Date	Vesting Date	Exercise Date A\$	Expiry Date
1,250,000	20 April 2012	20 April 2014	\$0.35	31 December 2014
3,500,000	31 May 2012	31 May 2012	\$0.35	31 December 2014
2,250,000	30 June 2012	30 June 2014	\$0.35	31 December 2014
7,000,000				

The options outstanding at 31 December 2013 are detailed below.

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted during year	Expired during year	Exercised during year	Balance at end of year
5 March 2008 <sup>(1)</sup>	5 March 2013	15.75 cents	66,666	-	(66,666)	-	-
23 March 2011 <sup>(2)</sup>	1 July 2013	15 cents	3,500,000	-	(3,500,000)	-	-
23 March 2011 <sup>(2)</sup>	1 July 2013	17 cents	1,650,000	-	(1,650,000)	-	-
23 March 2011 <sup>(2)</sup>	31 December 2013	18 cents	1,650,000	-	-	-	1,650,000
20 April 2012 <sup>(2)</sup>	31 December 2014	35 cents	1,250,000	-	-	-	1,250,000
31 May 2012 <sup>(2)</sup>	31 December 2014	35 cents	3,500,000	-	-	-	3,500,000
30 June 2012 <sup>(2)</sup>	31 December 2014	35 cents	2,250,000	-	-	-	2,250,000
28 June 2013 <sup>(2)</sup>	31 December 2015	18 cents	-	1,500,000	-	-	1,500,000
28 June 2013 <sup>(2)</sup>	31 December 2015	17 cents	-	5,000,000	-	-	5,000,000
			13,866,666	6,500,000	(5,216,666)	-	15,150,000

1) Options granted pursuant to Employee Share Option Plan approved 30 November 2005. This plan provides for vesting restrictions based on minimum period of employment conditions.

2) Options granted pursuant to Employee Share Option Plan approved 30 November 2010. This plan provides for vesting restrictions based on minimum period of employment conditions.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2013****25 SHARE BASED PAYMENTS (Continued)****b) Minority Interest Buyback in Empire Energy USA LLC**

During the financial year the Company issued 2,500,000 Performance Rights subject to preconditions being met over fully paid ordinary shares and 4,000,000 fully paid ordinary shares in Empire Energy Group Limited as consideration for the buy back of the minority interest equity holder in Empire Energy USA LLC.

**c) Expenses arising from share based payment transactions**

Year ending - 31 December 2013

6,500,000 future options were granted pursuant to the Empire Groups Employee Share Options Plan. The share based payments transactions costs during the financial year for these options and previously granted options based on a pro-rata portion of the vesting period was \$406,090.

4,000,000 fully paid ordinary shares and 2,500,000 performance rights were issued as consideration for a minority interest buy back in Empire Energy USA LLC. The cost of the fully paid ordinary shares for this financial period was \$372,520. The share based payments transactions costs for the Performance Rights during the financial year for these Performance Rights based on a pro-rata portion of the vesting period was \$56,250

Year ending - 31 December 2012

7,000,000 future options were granted pursuant to the Empire Groups Employee Share Options Plan. The share based payments transactions costs during the financial year for these options and previously granted options based on a pro-rata portion of the vesting period was \$513,013.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 26 SEGMENT INFORMATION

The Empire Group has two reportable segments as described below. Information reported to the Empire Group's chief executive office for the purpose of resource allocation and assessment of performance is more significantly focused on the category of operations.

	Oil & Gas		Investments		Other		Eliminations		Total	
<i>in USD</i>	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue (external)	25,886,370	26,643,095	-	-	-	-	-	-	25,886,370	26,643,095
Other income (excluding Finance income)	462,702	421,986	206,274	594,484	8,912	5,440	-	-	677,888	1,021,910
Reportable segment profit/(loss) before tax	5,211,779	6,672,640	172,804	422,756	(1,800,803)	(1,874,507)	-	-	3,503,780	5,220,889
Finance income	3,087	6,060	1,324,977	1,989,137	(3,745)	17,827	(1,324,977)	(1,989,137)	(658)	23,887
Finance costs	(4,793,393)	(9,249,634)	-	-	(8,777)	(9,679)	1,324,977	1,989,137	(3,477,193)	(7,270,176)
<i>Profit/(loss) for the period before tax</i>									<b>25,929</b>	<b>(2,025,400)</b>
Reportable segment assets	110,743,730	117,716,515	5,680,847	37,356,711	765,259	2,128,023	(5,265,696)	(36,761,673)	111,924,140	120,439,576
Reportable segment liabilities	57,295,903	(104,681,417)	-	-	-	(1,406,157)	5,265,696	36,761,673	62,561,599	(69,325,901)
<i>Other material non-cash items:</i>										
- Gain on disposal of acreage	-	-	-	-	-	-	-	-	-	-
- Depreciation and amortisation	(5,009,458)	(4,732,015)	-	-	(18,760)	(18,401)	-	-	(5,028,218)	(4,750,416)
- Impairment expense	-	-	(33,470)	(171,728)	-	-	-	-	(33,470)	(171,728)
- Gain on disposal	-	-	206,274	594,484	-	-	-	-	206,274	594,484
- Lease expiration costs	(152,379)	(1,026,978)	-	-	-	-	-	-	(152,379)	(1,026,978)
<i>Non-cash items included in Finance costs:</i>										
- Asset retirement obligation accretion	(404,512)	(701,090)	-	-	-	-	-	-	(404,512)	(701,090)
- Discount on debt & overriding royalty interest	(855,924)	(3,793,317)	-	-	-	-	-	-	(855,924)	(3,793,317)
Capital expenditure	(4,482,501)	(4,635,561)	-	-	(199,604)	-	-	-	(4,682,105)	(4,635,561)

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2013****26 SEGMENT INFORMATION (Continued)**

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. Included in Other income above are gains disclosed separately of the face of the statement of Comprehensive Income.

The Empire Group's reportable segments under AASB 8 are as follows:

- Oil and gas operations - includes all oil and gas operations located in the USA. Revenue is derived from the sale of oil and gas and operation of wells.
- Investments - includes all investments in listed and unlisted entities, including the investment in Empire Energy Group USA (eliminated on consolidation). Revenue is derived from the sale of the investments.
- Other - includes all centralised administration costs and other minor other income.

Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of central administration costs and directors' salaries, finance income and finance expense, gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

**Geographical information**

All Revenue from external customers is derived from operations in the USA.

The majority of the Empire Group's assets are located in the USA.

**Major customer**

Revenues from two major customers of the Empire Group's Oil & Gas segment represents approximately \$18,379,323 (2012: one major customer \$11,190,100 ) of the Empire Group's total revenues.

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 27 RELATED PARTY DISCLOSURES

##### a. Disclosures Relating to Directors

- i. The names of persons who were directors of the Company at any time during the financial year were:
  - B W McLeod
  - D H Sutton
  - K A Torpey
- ii. Directors' Shareholdings

##### Number of shares held by the Company Directors

Director	Balance at 31 December 2012	Acquired during period through Share Purchase Plan	Other changes during period	Balance at 31 December 2013
B W McLeod	6,939,760	-	298,605	7,238,365
D H Sutton	663,300	-	-	663,300
K A Torpey	2,191,449	-	-	2,191,449

##### Option holdings

Number of options over ordinary shares in the Company held during the financial period by each Director of the Company, including their related entities are set out below:

Director	Balance at 1 January 2013	Granted during year as Remuneration	Exercised during year	Expiring during year	Balance at 31 December 2013	Vested exercisable at 31 December 2013
B W McLeod	7,300,000	3,000,000	-	3,650,000	6,650,000	-
D H Sutton	750,000	-	-	-	750,000	-
K A Torpey	750,000	-	-	-	750,000	-

The options held by Directors' were issued under an Employee Share Option Plan and are exercisable on the following basis and subject to a minimum term of employment conditions:

Director	No. of options	Exercise Price A\$	Expiry Date
B W McLeod	1,650,000	\$0.18	31 December 2013
	2,000,000	\$0.35	31 December 2014
	1,500,000	\$0.18	31 December 2015
	1,500,000	\$0.17	31 December 2015
D H Sutton	750,000	\$0.35	31 December 2014
K A Torpey	750,000	\$0.35	31 December 2014

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2013

#### 27 RELATED PARTY DISCLOSURES (Continued)

##### iii. Transactions with Key Management Personnel

	2013 US\$	2012 US\$
1) B W McLeod is a director and shareholder of Eastern & Pacific Capital Pty Limited. The Empire Group incurred the following transactions:		
- Management consultant fees	385,237	362,495
- Bonus payment	-	113,927
2) W McLeod lent funds to the Empire Group. Interest has been accrued on this loan.		
- Interest accrued on loan facility	-	5,204
3) Aggregate amounts payable to Directors and their related Companies at balance date:		
- B W McLeod		
- Loan	-	21,750
- Interest	-	19,422
- Eastern & Pacific Capital		
- Bonus and consulting fees	193,322	206,296
4) J Warburton is a director and CEO of wholly-owned subsidiary Imperial Oil & Gas Pty Limited. The Empire Group paid the following transactions:		
- Advisory fees	275,763	221,114



**27 RELATED PARTY DISCLOSURES (Continued)**
**b. Disclosures Relating to Controlled Entities**

Empire Energy Group Limited is the ultimate controlling Company of the Consolidated Entity comprising the Company and its wholly-owned controlled companies.

During the year, the Company advanced and received loans, and provided accounting and administrative services to other companies in the Consolidated Entity. The accounting and administrative services were provided free of charge, and the loans are interest bearing for trading subsidiaries and unsecured.

**c. Investments in Controlled Companies**

c. Investments in Controlled Companies	Country of Incorporation	Class of Share	Interest Held	
			December 2013 %	December 2012 %
Controlling Empire Group				
Empire Energy Group Limited	Australia			
Controlled Companies				
Imperial Oil & Gas Pty Limited	Australia	Ordinary	100	100
Mega First Mining NL	Vanuatu	Ordinary	100	100
<sup>1</sup> Imperial Technologies Pty Limited	Australia	Ordinary	100	100
<sup>2</sup> OzNetwork Pty Limited	Australia	Ordinary	Nil	81
Imperial Resources LLC	USA	Ordinary	100	100
Imperial Energy Pty Ltd	Australia	Ordinary	100	100
Cobalt Energy Pty Ltd	Australia	Ordinary	100	100
Empire Energy USA LLC	USA	Ordinary	100	95

All entities are audited by Nexia Court & Co with the exception of Mega First Mining NL, a Company incorporated in Vanuatu and Empire Energy USA LLC incorporated in the USA which is audited by Schneider Downs.

<sup>1</sup> During the financial year the Company made application for the voluntary deregistration of Imperial Technologies Pty Limited a non-operating subsidiaries under subsection 601AA(2) of the Corporations Act 2001. In December 2013 ASIC approved the application for deregistration.

<sup>2</sup> During the financial year the Company relinquished its holding OzNetwork Pty Limited by transferring its shareholding to a non-related party

During the 2012 financial year the Company made application for the voluntary deregistration of the following non-operating subsidiaries under subsection 601AA(2) of the Corporations Act 2001

Name of Subsidiary	Deregistration Date
Vodex Pty Ltd	22 August 2012
Imperial Mining Investments Pty Ltd	22 August 2012
Jasinv Pty Ltd	22 August 2012
Jasrad Pty Ltd	22 August 2012
Imperial Management Services Pty Limited	13 October 2012

## 28 NOTES TO THE STATEMENT OF CASH FLOWS

	December 2013 US\$	December 2012 US\$
<b>(a) Reconciliation of Cash</b>		
Cash at the end of the financial year is shown in Statement of Financial Position as follows:		
Cash at bank and in hand	2,322,720	6,189,192
<b>(b) Reconciliation of profit after income tax expense to net cash flows from operating activities</b>		
(Loss)/profit for the period after income tax expense	(1,038,775)	(203,577)
<b>Adjustments for non-cash items:</b>		
Depreciation & amortisation expense	5,028,214	4,750,416
Write-off ARO	40,387	-
Impairment of property, plant & equipment	-	-
Loss on disposal of Property, plant & equipment	28,265	197,337
Gain on disposal of acreage	-	-
Write-off of exploration expenditure	729,151	197,139
Expiration of leases	152,379	1,026,978
Impairment of available for sale financial assets	33,470	171,728
Profit/Loss on disposal of available for sale financial assets	(206,274)	(594,484)
Amortisation of overriding royalty interest	-	1,799,938
Discount on debt	853,785	1,993,380
Asset retirement obligation accretion	404,512	701,093
Share-based payment expense	461,514	513,013
<b>Operating profit before changes in working capital and provisions</b>	<b>6,486,628</b>	<b>10,552,961</b>
Change in Trade and other receivables	423,346	479,398
Change in Prepayments and other current assets	(80,154)	(66,429)
Change in Inventories	(189,964)	(219,824)
Change in Current tax asset	652,342	(301,875)
Change in Trade and other payables	(668,863)	2,254,665
Change in Debt	-	-
Change in Provisions	(80,216)	(7,897)
Change in Income tax liabilities	-	-
Change in Deferred Tax Liability	980,972	(586,360)
	<b>1,037,463</b>	<b>1,551,678</b>
<b>Net cash flows from operating activities</b>	<b>7,524,091</b>	<b>12,104,639</b>

**(c) Non-Cash Financing and Investing Activities**

During the current financial year the following transactions occurred:

The Company granted 6,500,000 executive options to acquire ordinary shares in the capital of the Company to Directors and specified executives of the Company. 5,000,000 of these Options are exercisable at A\$0.17 and expire on 31 December 2015, the remaining 1,500,000 Options are exercisable at A\$0.18 and expire 31 December 2015. The options were granted pursuant to the terms of the Company's Employee Share Option Plan which provides vesting restrictions based on minimum period of employment conditions. Shareholder approval was obtained where required. These options were independently valued in July 2013 at A\$213,000.

**28 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)**

A proportional value of these options together with previously granted options based on a pro-rata portion of the vesting period was expensed during the financial year as follows:

- 5,000,000 options exercisable @ A\$0.17 expiring 31/12/15	A\$342,396
- 1,500,000 options exercisable @ A\$0.18 expiring 31/12/2015	A\$77,147
	<u>A\$419,543</u>

- 4,000,000 fully paid ordinary shares and 2,500,000 performance rights were issued as consideration for a minority interest buy back in Empire Energy USA LLC. The cost of the fully paid ordinary shares for this financial period was \$372,520. The share based payments transactions costs for the Performance Rights during the financial year for these Performance Rights based on a pro-rata portion of the vesting period was \$56,250.

During the previous financial year the following transactions occurred:

- The Company granted 7,000,000 executive options to acquire ordinary shares in the capital of the Company to Directors and specified executives of the Company. The Options are exercisable at A\$0.35 and expire on 31 December 2014. The options were granted pursuant to the terms of the Company's Employee Share Option Plan which provides vesting restrictions based on minimum period of employment conditions. Shareholder approval was obtained where required. These options were independently valued in July 2012 at A\$576,250.

**29 EARNINGS PER SHARE**

	<b>2013</b>	<b>2012</b>
Basic earnings per share (cents per share)	(0.37)	(0.08)
Diluted earnings per share (cents per share)	(0.37)	(0.08)
(Loss)/profit used in the calculation of basic and diluted earnings per share	(1,118,831)	(220,723)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	306,014,367	290,864,302
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	306,014,367	290,864,302

**30 SUPERANNUATION COMMITMENTS**

The Empire Group contributed to externally managed accumulation superannuation plans on behalf of employees. Empire Group contributions are made in accordance with the Empire Group's legal requirements.

**31 BUSINESS COMBINATIONS**

There were no business combinations in the financial year ending 31 December 2013.

On 17 July 2012 Empire Energy E&P, LLC announced that it had acquired a 97.9% working interest in producing petroleum properties located in Gove County in the Central Kansas Uplift, Kansas (the "Acquired Assets") for a purchase price of US\$1.7 million in cash, subject to closing adjustments. The effective date of this transaction was 1 June 2012 and has been reflected in this financial report.

The Acquired Assets consist of 3,360 gross (2,648 net) acres on land with total preliminary estimated proved and probable recoverable reserves of 470,000 barrels of oil. As at acquisition date the working interest production from the Acquired Assets was approximately 20 Bbl/d, which Empire Energy expects to increase through targeting 2 behind pipe Mississippian and Pennsylvanian carbonate opportunities identified by 3D seismic, plus an initial 11 seismic identified drilling locations to be targeted over 2012/13. The Company is the operator of the new assets.

**32 PARENT ENTITY INFORMATION**

	<b>2013 US\$</b>	<b>2012 US\$</b>
<b>Information relating to Empire Energy Group Limited:</b>		
Current Assets	426,182	2,069,627
Total Assets	37,963,007	40,365,045
Current Liabilities	(915,315)	(1,365,966)
Total Liabilities	(2,814,206)	(1,406,157)
Shareholder's Equity:		
Issued Capital	(73,683,238)	(73,325,555)
Reserves		
- Fair value reserve	(176,017)	(952,693)
- Foreign currency translation reserve	(29,981)	(1,328,286)
- Options reserve	(1,160,728)	(883,583)
- Share based payment reserve	(174,624)	-
- General Reserve	(145,196)	-
Accumulated Losses	37,526,298	37,531,229
Total Shareholder's Equity	(37,843,486)	(38,958,888)
(Loss)/Profit for the period	(628,642)	538,005
Total Comprehensive income	(2,267,791)	16,396

**33 DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION**
**Determination of Remuneration of Directors**

Remuneration of non-executive directors comprise fees determined having regard to industry practice and the need to obtain appropriate qualified independent persons.

Remuneration of the executive director is determined by the Remuneration Committee (refer statement of Corporate Governance Practices and the Remuneration Report for further details).

In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility, consistent with the Empire Group's level of operations.

**Determination of Remuneration of Other Key Management Personnel**

Remuneration of senior executives is determined by the Remuneration Committee (refer statement of Main Corporate Governance Practices for further details). In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility, consistent with the Empire Group's level of operations

**33 DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION (Continued)**
**Directors' and Executive Officers' Remuneration**

Details of the nature and amount of each major element of the remuneration of each director of the Empire Group and each named officer of the Empire Group and the Consolidated Entity receiving the highest remuneration are:

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2013	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave	Share/option based payments *	Total US\$
<b>Directors</b>							
B W McLeod	385,237	-	58,520	-	-	151,981*	595,738
K A Torpey	19,359	-	-	1,742	-	26,134*	47,235
D H Sutton	-	-	-	19,359	-	26,134*	45,493
J Warburton	275,763	-	-	-	-	-	275,763
<b>Empire Energy Executives</b>							
A Boyer	173,000	-	46,667	-	-	18,104*	237,771

\* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The net cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of previous options issued. Once the options reach vesting date, the cost shown amortises to \$0. The Cost of the above options issued under the ESOP over the year was \$222,353 the loss on options relating to the above directors that expired over the year was \$131,116. The net cost of options issued to the above directors and executives for the year was \$91,237.

	Short term benefits			Post-employment benefits	Long-term benefits		
December 2012	Cash salary and fees US\$	Bonus payments US\$	Non-monetary US\$	Super contributions US\$	Long service leave	Share/option based payments *	Total US\$
<b>Directors</b>							
B W McLeod	362,495	113,927	28,540	-	-	302,923*	807,885
K A Torpey	20,714	-	-	1,864	-	16,395*	38,973
D H Sutton	-	-	-	20,714	-	16,395*	37,109
J Warburton	221,114	-	-	-	-	-	221,114
<b>Empire Energy Executives</b>							
A Boyer	156,000	-	39,481	-	-	7,571*	203,052

\* Share/Option based payments reflect a proportion of the independently valued cost of options granted under the Employee Share Option Plan ("ESOP"). The cost shown is a non-cash cost and includes, on a pro-rata basis, the independently valued cost of previous options issued. Once the options reach vesting date, the cost shown amortises to \$0. The Cost of the above options issued under the ESOP over the year was \$343,284 the loss on options relating to the above directors that expired over the year was \$250,585. The net cost of options issued to the above directors and executives for the year was \$92,699.

**34 AUDITORS' REMUNERATION**

	<b>2013 US\$</b>	<b>2012 US\$</b>
<b>Audit Services</b>		
Auditors of the Company – Nexia Court & Co.:		
Audit and review of financial reports	89,872	103,625
Other auditors:		
Audit and review of financial reports	150,466	138,686
	<b>240,338</b>	<b>242,311</b>
<b>Other services</b>		
Auditors of the Company – Nexia Court & Co.:		
Taxation services	10,116	19,612
Other auditors:		
Taxation services	55,262	127,745
	<b>65,378</b>	<b>147,357</b>

**35 MATTERS SUBSEQUENT TO BALANCE DATE****1) Drawdown on Finance Facility**

In February 2014 the Company they had altered the terms of the Company's existing finance facility to allow additional flexibility to drawdown up to US\$2 million.

Under the new terms the company has drawdown US\$1million. As a component of this drawdown the Company has issued to Macquarie Bank 4,250,000 unlisted options to Macquarie Bank Limited exercisable at A\$0.12, expiring 26 February 2016.

**2) Exploration Permit**

On 7 November 2013 an exploration Agreement was reached between Imperial Oil & Gas Pty Ltd and the traditional owners in the petroleum exploration area EP(A) 187. Permit grant is expected in April 2014. Granting of the exploration permit will allow on-ground exploration activities to commence.

There were no other matters or circumstances that have arisen since 31 December 2013 that has significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2013, of the Empire Group; or
- the results of those operations; or
- the state of affairs in financial years subsequent to 31 December 2013 of the Empire Group.

## **DIRECTORS' DECLARATION**

In the opinion of the directors of Empire Energy Group Limited (the "Company"):

- a** The financial statements and notes of the Company and the remuneration disclosures that are contained in the Remuneration report in the Directors' report set out on pages 31 to 34, are in accordance with the *Corporations Act 2001*, including:
  - i** Giving a true and fair view of the Company's and Group's financial position as at 31 December 2013 and of their performance, for the year ended on that date; and
  - ii** Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b** the financial report also complies with the International Financial Reporting Standards as disclosed in note 1; and
- c** there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the year ended 31 December 2013.

Signed in accordance with a resolution of the directors.



**B W McLEOD**  
Director

**Dated:** 31 March 2014



## INDEPENDENT AUDITOR'S REPORT

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EMPIRE ENERGY GROUP LIMITED

#### Report on the Financial Report

We have audited the accompanying financial report of Empire Energy Group Limited, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors as at the time of this auditor's report.

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### *Opinion*

In our opinion:

- (a) the financial report of Empire Energy Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 31 to 34 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion, the Remuneration Report of Empire Energy Group Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads "Nexia Court & Co".

**Nexia Court and Co**  
Chartered Accountants

A handwritten signature in black ink, likely belonging to Robert Mayberry.

**Robert Mayberry**  
Partner

**Sydney**

Dated: 31 March 2014

## SHAREHOLDER INFORMATION

### ORDINARY SHARES

#### a Substantial Shareholders as at 14 March 2014

Name	Number of Shares	% Holding
Macquarie Bank Limited (Metals & Energy CAP DIV A/C)	53,666,666	17.38
HSBC Custody Nominees (Australia) Limited – A/C 2	17,176,865	5.56

#### b Distribution of Fully Paid Ordinary Shares

	Holders	Number of Shares	% Holding
1 – 1,000	333	134,175	0.04
1,001 – 5,000	876	2,490,101	0.81
5,001 – 10,000	509	3,882,812	1.26
10,001 – 100,000	969	36,556,133	11.84
100,001 and over	350	265,800,461	86.05
<b>Total number of holders</b>	<b>3,037</b>	<b>308,863,682</b>	<b>100.00</b>

i Number of holders of less than a marketable parcel 1,163

ii Percentage held by 20 largest holders 46.24

#### c Twenty Largest Shareholders as at 14 March 2014

Name	Number of Shares	% Holding
1 Macquarie Bank Limited <Metals & Energy Cap Div A/C>	53,666,666	17.38
2 HSBC Custody Nominees (Australia) Limited - A/C 2	17,176,865	5.56
3 WYT Nominees Pty Ltd <C & E Wong Super Fund A/C>	10,517,118	3.41
4 Imperial Investments Pty Ltd	6,529,308	2.11
5 Armco Barriers Pty Ltd	5,800,000	1.88
6 Rhodes Capital Pty Ltd <McLeod Super Fund A/C>	5,122,300	1.66
7 John Wardman & Associates Pty Ltd <The Wardman Super Fund A/C>	4,400,000	1.42
8 Act2 Pty Ltd	4,000,000	1.30
9 Commonwealth Energy Assets LLC	4,000,000	1.30
10 Remond Holdings Pty Limited <The Defina A/C>	3,951,401	1.28
11 Mr Kenneth Murray + Mrs Ruth Murray <Murray Super Fund A/C>	3,800,000	1.23
12 Ms Michelle Wong	3,781,575	1.22
13 JP Morgan Nominees Australia Limited <Cash Income A/C>	3,005,343	0.97
14 Dryca Pty Ltd <Dryca Employees Ret/F A/C>	3,000,000	0.97
15 Classic Roofing Pty Limited <Superannuation Fund Account>	2,700,000	0.87
16 Hsbc Custody Nominees (Australia) Limited	2,684,406	0.87
17 McGee Constructions Pty Ltd <McGorman Super Fund A/C>	2,475,000	0.80
18 CK Corporate Pty Ltd <Ck A/C>	2,200,000	0.71
19 Mr Clive Thomas	2,013,023	0.65
20 Mrs Xiao Jing Chen	2,010,000	0.65
	<b>142,833,005</b>	<b>46.24</b>

#### d Voting Rights

On a show of hands every member present in person or by proxy shall have one vote and upon a poll every member, present in person or by proxy, shall have one vote for every share except if the issue price has not been paid in full, then the holder is only entitled to a fraction of a vote on that share, being, the quotient of the amount paid up divided by the issue price of that share.

**SHAREHOLDER INFORMATION (Continued)****UNQUOTED SECURITIES AS AT 14 MARCH 2014**

<b>Class of unquoted securities</b>	<b>No. of securities</b>	<b>No. of holders</b>
Unlisted Executive Options issued under the terms of the Company's executive option plan		
- Executive options exercisable at \$0.35 expiring 31 December 2014	7,000,000	11
- Executive options exercisable at \$0.17 expiring 31 December 2015	5,000,000	8
- Executive options exercisable at \$0.18 expiring 31 December 2015	1,500,000	1
Unlisted Performance Rights subject to certain preconditions being met	2,500,000	1

**Voting Rights**

There are no voting rights attached to any of the unquoted securities listed above.

**LIST OF EXPLORATION LICENCE APPLICATIONS - AUSTRALIA**

<b>Permit</b>	<b>State</b>	<b>Status</b>	<b>Interest</b>
EP(A) 180	NT	Under application	100%
EP(A) 181	NT	Under application	100%
EP(A) 182	NT	Under application	100%
EP(A) 183	NT	Under application	100%
EP(A) 184*	NT	Granted	100%
EP(A) 187	NT	Approved, awaiting grant	100%
EP(A) 188	NT	5 year moratorium	100%

*\*Pastoral Lease subject to Native Title*

**LIST OF PETROLEUM TENEMENTS**

A full list of the petroleum tenements held by the Company was announced on the Australian Securities Exchange on 3 February 2014. Given the extensive list (61 pages) it was not practical to include this listing in the Annual Report of the Company.